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SOVIET ECONOMIC POLICY IN THE EAST

SOVIET ECONOMIC POLICY IN THE EAST

TURKEY, PERSIA
AFGHANISTAN, MONGOLIA AND
TANA TUVA, SIN KIANG

BY
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'*With all its contradictions and anomalies, or perhaps on account of these peculiarities, the Eastern policy of the III International has an organic force which has greatly increased the independence movement in the East and has given it an impetus which in the world order of the future will still be felt when its author has long left the stage.*'

Foreword to HURWITZ
Die Orientpolitik der Dritten Internationale, *Berlin*, 1922

'*In all these branches of changing economy, finally we observe that cotton is the significant factor and the pioneer of the new economic order.*'

BRUNO SEIFERT
Afghanistan, *Berlin*, 1929, p. 44

FOREWORD

THE economic relations of the Soviet Government with Turkey, Persia, Afghanistan, Mongolia, Sin Kiang, and Tana Tuva were originally based on a special trading system which more or less ignored the Soviet Foreign Trade Monopoly, and never applied to the Orient as a whole.

The other countries of the East were excluded by the Soviets from the advantages pertaining to this special system, either because their industrial life was organized under Western influence on capitalistic lines (the case in India and China for example), or because they were themselves regarded as pursuing imperialistic aims (as in the case of Japan).

This book is confined to the area encircling the Soviet Union from the Black Sea to Siberia, where this special system has now been in operation for more than a decade. As there are many indications, like the closing of the Baku and Nizhni Novgorod Fairs in 1930 and the more rigorous terms of recent Soviet Commercial Treaties with Persia and Turkey, that it is losing its pristine virtue, the moment seemed ripe to examine the evolution of Soviet Eastern trade, from the original position to that which obtains to-day.

In the case of Turkey, Persia, Afghanistan, Mongolia, and Sin Kiang the evolution of Soviet economic policy is clear and mature enough for detailed treatment. In the case of Tana Tuva this is not so. The country is not yet sufficiently developed to warrant a study along the same lines, nor indeed is

there adequate information this side of Moscow for attempting it. At the present stage, therefore, the situation seems to be covered by an outline of the economic relation of Tana Tuva to the Soviet Union and an indication of certain factors which even now bid fair to transform the scene in the near future.

It may be asked why this sector of Soviet trade which in the aggregate forms such a small percentage of Soviet foreign trade should be the object of a special study? Is this not making a mountain out of a molehill?

In the first place it may be said that an account of Soviet trade in the above-mentioned six countries is an essential introduction to the wider subject of Soviet Eastern trade in general. Owing to the special exemptions from the Soviet foreign trade monopoly on which it originally rested, it has considerable importance as a propagandist experiment among certain Eastern peoples, if nothing more. In fact, however, the economic value of this trade to the Soviet Union is also annually increasing. Moreover, this molehill of to-day may very likely become the mountain of Soviet trade in the future. Finally no consecutive account of Soviet economic relations with these countries is yet available to my knowledge in English, though it should be of interest from many points of view, e.g., Anglo-Soviet economic and political rivalry in Persia and Afghanistan; the growing Soviet influence in Sin Kiang.

Basic material on the subject such as the texts of Soviet commercial treaties, tariff regulations, customs and transit conventions as well as information of a more general nature is in many cases almost inacces-

sible to the general reader, who has neither time nor inclination to probe the many scattered sources of information—only partially translated into English—where such material is to be found.

It is intended to complete this study of Soviet Eastern trade in a subsequent work dealing with those countries not mentioned here, and in particular China and Japan—whose economic relations with the Soviet Union are rapidly growing in interest and importance.

I wish to express my gratitude to Mr. Gaston A. Vetch who very kindly prepared the sketch map, to the staff of the Russian Section of the International Labour Office, Geneva, whose assistance materially lightened the spade work for this book, to Abul-Hassan Hakimi Khan and to Abdul Qadir Khan for information regarding Persia and Afghanistan, to Professors William Rappard and Paul Mantoux for their criticism and encouragement, to Mr. Sean Lester, Permanent Irish Delegate to the League of Nations, for many valuable personal contacts resulting from his genial and unfailing resourcefulness, and to Mr. John O. Crane whose generosity enabled me to write this book.

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CHAPTER I

THE EVOLUTION OF SOVIET ECONOMIC POLICY IN THE EAST[1]

The theoretical stage

FROM the earliest days of the Revolution it was clear that the East would be a predominating factor in Bolshevik policy and politico-economic doctrine. A line was firmly drawn by the Soviet Government between the East and the West or the exploited peoples and their imperialistic oppressors of the West, which strongly influenced the evolution of Soviet economic policy with foreign countries. A bold bid was made from the start to win the friendship of the East as a useful instrument in the coming struggle with Western capitalism. And for the moment it was politic in Russia to forget the tyrannical ways of Eastern potentates and systems of class and caste more ruthless than any economic disparities in the West.

In 1917–18 this discriminatory attitude was confirmed by very specious concessions to Eastern powers. Soviet Russia announced that she intended to repudiate all Czarist treaties, debts, capitulations in the East . . . and demanded no *quid pro quo*. By this dramatic gesture the common practice of Western governments in China, Turkey, and Persia was summarily condemned. A few years later, in 1921, the separate treaties concluded with Persia and Turkey also waived all rights to roads, telegraphic equipment, banks, and concessions of various kinds formerly

[1] References to works in Russian are marked throughout with an asterisk.

held by Russia. These sweeping concessions have been criticized on the grounds that Russia's real economic interests were sacrificed for political ends; such criticism tends to overlook the enormous repudiation of pre-War Russian debts to Western countries which was made by Soviet Russia at the same period and which to a certain extent balanced the quixotic actions in the East.

It was also indicative of the new spirit towards the East that the R.S.F.S.R. agreed with good grace at Brest-Litovsk to open its railways to German goods-in-transit to Persia and Afghanistan, thus reversing the traditional Russian policy of excluding other powers from the Persian sphere of influence.

In a series of manifestoes and congresses between 1917 and 1922, a great deal of rhetoric was expended on the politico-economic liberation of Oriental peoples, while at the same time the general principles of Soviet economic policy in the East were being formulated. As yet there was little mention of definite economic agreements between the Soviet Union and its Eastern neighbours. It was the heyday of general dialectics, economic and political. Later, when the plain details of formal economic agreements had to be discussed with these countries, the Soviet Union proved a more exigent partner than might have been anticipated from this early complacency with all that pertained to the East. Cases in point are Persia and Turkey whose first commercial treaty negotiations with the Soviet Government lasted seven years.[1]

In 1917 the League for the Liberation of the East

[1] The first commercial treaty with both countries was signed in 1927.

was founded, and proposed a sort of United States of Asia. Hurwitz,[1] commenting on the economic programme of this League, points out that the Soviets were careful never to raise the cry of 'Asia for the Asiatics'. This would have been the logical conclusion to their anti-imperialistic propaganda, but they were clear-sighted enough to realize that it might eventually cut the ground from under their own feet. Asia was declared to be 'for all who are technically and socially capable of participating in the economic expansion of a backward and primarily agrarian continent', in the first place, the R.S.F.S.R., 'which will proceed to establish mutually advantageous exchanges of goods and participate in the development of natural resources'. A month later a bid was made for Moslem[2] support in the histrionic Manifesto to all the Mohammedan peoples of the earth, including Russia where they form a large element of the population:

> Persians, Turks, Arabs, and Indians, all ye whose lives and liberties and homes have been bartered for centuries by the rapacious robbers of Europe, you whose lands the brigands who began the war, seek to divide, we declare that the secret treaties for the forcible seizure of Constantinople, for the partition of Persia, and the despoliation of Turkey are torn to shreds and annihilated.

The Second Congress of the *Comintern* was held at Moscow in 1920. Lenin was the *rapporteur* on

[1] Cf. Elias Hurwitz, *Die Orientpolitik der Dritten Internationale, Berlin*, 1922 (p. 21).

[2] At a later stage it may be noted that the Soviets in the name of cotton did not hesitate to destroy the traditional Moslem forms of economic and social life in Turkestan. Cf. Report of Moslem Congress at Jerusalem, Sept. 1931 (*Oriente moderno*, March 1932, p. 131).

Eastern and colonial problems.[1] He firmly laid down the principles on Eastern trade, eventually incorporated in the Decrees issued by the Commissariat of Foreign Trade in 1923 and 1924, and argued that the non-development of an industrial proletariat in the Orient should not be regarded as a reason for postponing the establishment of the Soviet system there. This is an important point and is the basis of later Soviet action in countries like Mongolia and Tana Tuva. It was decided at this Congress to hold a Congress of Eastern Peoples at Baku.

A few months later therefore at an awkward moment for the Great Powers, whose armies were then in occupation of large areas of Persia and Turkey, the Soviets summoned a Congress of Eastern Peoples at Baku. Delegates came from all parts of the East, and the political and economic sins of the capitalistic West were dwelt on at length by the Russian president of the Congress and his colleagues. The key-notes of the Congress were struck by Zinovieff who declared: 'Our hardest blow must be struck at English capitalism, while at the same time we want to arouse a spirit of hatred in the labouring masses of the East.'[2] In spite of the dramatic setting and stimulating programme of the Congress, the assembled Persians, Arabs, Koreans, Turks, Afghans, Indians . . . dispersed without producing any very tangible results for Soviet propaganda in their respective countries.[3]

[1] Cf. Protocol of the Second Comintern Congress. Verlag der Kommunistischen Internationale, Carl Hoym, Hamburg 1922.

[2] Cf. *Stenographic Record of the Congress of the Peoples,** Moscow, 1920.

[3] Cf. Palmieri, A., *La Politica Asiatica dei Bolscevichi, Biblioteca di Politica*, Zanichelli, Bologna, 1924 (pp. 257–60); Fischer, *The Soviets in World Affairs*, Jonathan Cape, London, 1930 (p. 284).

In the case of China it was different. The growth of the Chinese Communist Party which after many vicissitudes has now established a Soviet government in large areas of China may be said to date from this year.

Soviet economic measures affecting the East

Meanwhile the Soviet Government was assiduously building up its own forms of economic and commercial machinery in which, as is shown in the next section, special provision was made for the East.

The regulation of foreign trade did not assume much practical importance in the Soviet economy until after 1922 when Russia began to recover from the complete dislocation caused by revolution, famine, and blockade. As far as the East was concerned the first period of Soviet activity from 1917–21 was rather absorbed by economic generalities embedded in political formulae and propaganda than by any definite economic legislation or agreements.

When in 1920 the Foreign Trade Commissariat and the Foreign Trade Monopoly were formally organized, six Eastern countries, Persia, Afghanistan, Turkey, Mongolia, Tana Tuva, and western China, were exempt from the strict application of the foreign trade monopoly and their merchants were allowed to trade directly with Russian commercial organizations, co-operatives, and to a certain extent even with private individuals. Moreover the generous declarations of the Soviet Government with regard to Eastern trade were fully endorsed by the first decrees of the Foreign Trade Commissariat on Eastern trade which were issued in 1923[1] and 1924.[2] Eastern

[1] Cf. *Collected Laws and Decrees of the Workers' and Peasants' Republic,** Moscow, 1923, No. 88, p. 1542.

[2] Ibid., 1924, Nos. 100, 101, vol. 10, p. 99.

merchants were permitted to engage in import and export business within the Soviet Union without licence and to take part in the Nizhni and Baku Fairs. The exact implication of these exemptions and privileges granted to Eastern trade will perhaps be more clearly understood if the normal operation of the foreign trade machinery is briefly recalled here.

The foreign trade monopoly

The foreign trade monopoly rests on the principle that the State must exercise sole and absolute control of foreign trade. The executive organ of this monopoly is the People's Commissariat of Foreign Trade which in conjunction with *STO* (the Council of Labour and Defence) regulates the categories and quantities of all merchandise to be imported or exported by the Soviet Union, according to plan. Most of these import and export transactions are directly undertaken by the organs of the Foreign Trade Commissariat (i.e. the Soviet Commercial Delegations in foreign countries) or by other Soviet organizations authorized to participate in foreign trade directly under its control. The functions of these organs vary. Some of them, like the *Exportkhleb* (Grain Export Company) or the *Soyusneft* (Union Oil Company), are formed to deal with exports of special commodities from the Soviet Union. In other cases the trusts responsible for the production of the commodities are also authorized to market them abroad as in the case of the *Soyuzles* (The Union Timber Company). The large co-operatives such as the *Selsoyus* and the *Centrosoyus* also have special rights with regard to direct participation in foreign trade (both import and export) under the control of the Foreign Trade Commissariat or its Commercial Delegations

abroad. Finally there are the Mixed Trading Companies,[1] consisting of representatives of the Foreign Trade Commissariat and foreign firms and in which foreign capital may participate up to half of the total capital invested in the enterprise. They are organized either for general export business from the Soviet Union, or to market certain Soviet products abroad, or to sell foreign goods in Russia. Examples of these mixed trading companies operating in Eastern countries are: *Russo-Turk* or the Russo-Turkish Trading Joint Stock Co., *Persshelk* or the Russo-Persian Silk Co., *Sovmong* or the Russo-Mongol Trading Co., *Perskhlopok* or the Russo-Persian Cotton Co., and *Shark*, a company engaged in general import and export business between Persia and the Soviet Union. Although they possess a certain administrative autonomy and are entitled to engage in foreign trade, all the business transactions of these mixed companies are under the direct supervision and control of the Foreign Trade Commissariat or its organs in foreign countries.

The establishment of import contingents for the Soviet Union and their distribution among the agencies authorized to participate in foreign trade is another important function of the Foreign Trade Commissariat, as it is only within the limits of these import contingents that goods (except from certain Eastern countries) may be imported into the Soviet Union.

The last stage in the process of regulating foreign trade under the foreign trade monopoly is represented by 'licences'. Licences for imports and exports are issued in each particular case by the Licence Bureau

[1] The Mixed Trading Companies were established by decree of *STO* in 1922. Cf. *Pravda*, no. 4, 1922.

of the People's Commissariat of Foreign Trade or exceptionally by the Soviet Trade Delegations abroad; no goods may be passed in or out of the Soviet Union by the Customs authorities unless accompanied by the licence of the organization responsible for the transaction.

In the case of the six privileged Eastern countries, all this complicated tedious process of licences, contingents, customs formalities, was originally reduced to a minimum. Practically speaking this meant that Eastern traders could do their business personally in Russia without having to act through the instrumentality of the Foreign Trade Commissariat or its organs (often a lengthy and unsatisfactory procedure) and required no special authorization for this purpose. Furthermore, for a number of years, their goods were not restricted by the contingents which regulated all imports over the western frontier.

These distinctions between Eastern and Western trade correspond to the divergence of Soviet economic aims in the East and in the West. In the East the Soviets are chiefly seeking a market for their manufactured goods and an opportunity of spreading Communist propaganda among 'subjugated peoples'. In the West their aims are rather long credits to facilitate their imports of industrial machinery, political recognition, and the exclusion of Western manufactured consumers' goods. Some years ago these factors were clearly analysed in an article in the official *Encyclopaedia of Soviet Exports*,[1] which stated:

Our Eastern neighbours are in a peculiar position. By

[1] Cf. *Encyclopaedia of Soviet Exports*, 2nd edition, Berlin, 1928,* vol. i, p. 34.

reason of the structure of their economy, they cannot be regarded as competitors by the Soviet Union. Moreover the economic interests of these countries and of the U.S.S.R. call for the closest economic co-operation. These Eastern countries are themselves engaged in a struggle with imperialistic governments, and aspire to full national emancipation. They, therefore, do not offer any menace to the U.S.S.R. in the way of attack or blockade, but may be regarded as a buttress against imperialism. Capitalism is only beginning to rear its head in these countries. *Their agricultural production in view of their geographical position has little outlet and can never have sale except in the U.S.S.R.* On the other hand the quality and type of goods produced by Soviet industry is best adjusted to supply the needs and tastes of near Eastern countries. These facts have enormous significance, as much for the U.S.S.R. as for the particular countries concerned. We must guarantee a steady market for the raw materials of these Eastern countries and thus ensure their buying our industrial products. The figures for Eastern trade are already much higher than pre-war, while the foreign trade of the U.S.S.R. on the whole is still far from reaching this level.

The gist of this long statement of policy is that the Soviet Union, envisaging no danger to its socialistic construction from the East, is prepared to trade with Eastern countries on a different basis from the industrialized West. The importance attached by the Soviet Government to increasing trade eastwards and especially to exports of manufactured goods is also strongly underlined.[1] For the rest this semi-official pronouncement contains several very doubtful

[1] Cf. *Bulletin de la Banque d'État*, Moscow, Aug. 1930: 'De même l'exportation des articles industriels, principalement dans les contrées de l'Orient, doit augmenter absolument.'

assumptions. For example, it is by no means true that 'the quality and type of goods produced by Soviet industry is best adjusted to the needs of near Eastern countries'. It would be nearer the mark to say that only in the East are standards low enough to enable the Soviets to dispose of many of their industrial products at all, though in fact geographically the U.S.S.R. holds the key position to all these markets. There are many Eastern populations such as the Turkish peasants who are so poor that they must buy the cheapest articles on the market irrespective of their quality.[1] Or again a country like northern Persia, owing to the lack of organized transport facilities with southern Persia, is cut off from alternative markets and sources of supplies and has little choice in this matter; for the same reason it is only too true that 'her agricultural products can never have sale except in the U.S.S.R.'. Here Russia has the whip-hand and has not hesitated to use it on occasion so as to force Persia to accept her terms.

The large increase in all Soviet manufactured goods exported to Mongolia is certainly not a question of superior quality or better assortment, but is mainly due to the fact that the Soviets have succeeded in excluding their former competitors, in the first place the Chinese, from the market, as a result of the Mongolian foreign trade monopoly.

Another debatable point which will later be discussed in greater detail is the promised steady market for Eastern raw materials in the Soviet Union. The emancipation of Soviet industry from foreign sources

[1] Cf. *Report on Economic Conditions in Turkey*, Dept. of Overseas' Trade, London, 1927, p. 20.

of raw materials is now one of the great objectives of Soviet planned economy. If these plans succeed it is difficult to see on what basis of exchange trade between the U.S.S.R. and countries like Persia, Mongolia, or Afghanistan, chiefly exporting raw materials such as cotton, silk, and wool, could be continued—though it must be admitted that these are very hypothetical considerations at the present time.

In 1923, general principles of Eastern trade[1] were formulated by the Second All-Union Conference of Foreign Trade Commissars, in a document which may be regarded as the official charter of Soviet economic relations with the East at this stage.

It was decided by the Conference:

1. to apply reduced prices to goods exported to the East;
2. to encourage the formation of mixed companies for Eastern trade on easier terms than for Western;
3. not to require a favourable balance of trade in dealing with the East;
4. to foster Eastern trade on the most advantageous terms possible.

These principles were intended as a challenge to Western capitalistic methods in the East, while Soviet Russia emphasized her intention of co-operating with the East in the development of its natural resources and of giving Eastern interests precedence over her own.

How far in reality were these principles likely to foster Eastern economic interests?

[1] For text of these *Principles* cf. Appendix I.

In the second place how far were they actually applied?

In regard to the first point mentioned, it is obvious that artificially reduced prices may easily run counter to national interests in the form of young home industries. This is actually the case in Turkey and Persia for example, where an effort is being made to establish native textile, sugar, cement, and other industries. In both countries the manufacturers have appealed to the Government for protection against cheap Soviet goods; both have now adopted a defensive economic attitude against the Soviet Union. Persia introduced a foreign trade monopoly in 1931 and one of the chief reasons alleged for this measure by the Persian press[1] was the ruthless competition of Soviet commercial organizations trading under diplomatic immunities in Persia.

Reduced prices may undoubtedly serve a useful purpose in so far as they tend to lower those of higher competitors. On the other hand, in this case, it is important to ascertain whether the prices remain down after the competition has disappeared. Many instances of the contrary practice are cited against the Soviet trading organs, especially in Persia. It is alleged, for example, that cheap Soviet matches ruined the native Persian industry at Tabriz, but that the prices of Soviet matches were immediately raised as soon as competition had been killed.[2]

[1] Cf. *Iran de Téhéran*, Nov. 17, 1931 (p. 3); *Oriente moderno*, July 1930 (p. 310).

[2] Cf. Khan Kazemi, *Le Commerce extérieur de la Perse*, Paris, 1930 (p. 183).

The propagandist appeal of this 'reduced prices' slogan thus greatly diminishes when analysed in the light of Soviet economic practice. Soviet prices in the East are as opportunistically established with a view to extending Soviet markets (and on no other basis) as in any other part of the world. It would be difficult, I think, to find a single instance where they have been modified out of deference to Eastern economic interests. Where the Soviets control the situation, as in Mongolia, there is no indication from their own statistics that specially reduced prices have been enforced. In fact, the prices of certain commodities[1] (oil products, textiles, sugar) seem higher than elsewhere, even taking into account the heavy transport charges. But it must be admitted that it is dangerous to make a categorical assertion on this point where the exact cost of freight cannot be ascertained. On the other hand, in Sin Kiang, where Soviet trade is not yet so strongly entrenched as in Mongolia, Soviet textiles, cigarettes, galvanized utensils, &c., are undoubtedly sold below the sale prices

[1] The following table shows the price of oil and sugar per ton in various Eastern and Western countries. (Basic Statistics from *Foreign Trade.** Statistical Survey, Oct. 1931.)

(Calculation of cost per ton made by the writer).

Country	*Exports of oil products (tons)*	*Cost (1,000 roubles)*	*Price per ton*	*Country*	*Exports of sugar (tons)*	*Cost (1,000 roubles)*	*Price per ton*
Italy	87,896	12,695	144 r.	Mongolia	3,323	1,457	438
Mongolia	4,276	1,090	254 r.	Latvia	33,031	2,085	63
Germany	344,866	9,926	29 r.	Persia	36,289	8,439	232
Persia	47,395	3,748	79 r.	Germany	6,609	626	94

at the Soviet stores in Andijan and Osh on the Russian side of the frontier.[1]

Up to 1923, when the above-mentioned Declaration on Eastern Trade was made, the foreign trade and the productive forces both agricultural and industrial of the Soviet Union were at a low ebb. Soviet intervention in the East, in spite of all the economic discussions of the Soviet Government, had hitherto concentrated on political rather than economic aims. Many factors then combined to direct attention to the more fruitful field of economic activity.[2]
As Professor Palmieri remarked in 1924:

> It would seem as if the Soviets are beginning to understand the practical impossibility for them of exercising a predominating political influence on the destinies of Asia. Therefore, as faithful disciples of Tzarist diplomacy, they aim at securing economic advantages. Their aims in this respect do not greatly differ from those of British policy.[3]

The developments of the next few years (1925–31) in the countries studied in the following chapters of this book, fully justify this criticism.

A new element of severity now appears in measures affecting Eastern trade. In 1926 the 'net-balance' principle was introduced for the first time in trading with the East and reappeared the following year as

[1] Cf. *Journal of the Central Asian Society*, vol. xvi, Part IV, 1929, 'Politics and Trade in Central Asia', by W. Bosshard.

[2] Speaking at the Russo-Oriental Chamber of Commerce on Jan. 20, 1924, Tchicherin said: 'Our relations with the East were originally strictly political, when Soviet Russia and the East were struggling for independence against the common enemy. Now we are confronted by a much more arduous task, the development of our productive forces.' Cf. A. Palmieri, *La Politica Asiatica dei Bolscevichi*, 1924, p. 275.

[3] Ibid., p. 275.

the basis of the Soviet-Persian Commercial Treaty.[1] Owing to the low level of agricultural production in the Soviet Union, large quantities of consumers' goods (rice, live stock of all kinds, fruits, fish, leather, etc.) had been imported from Persia, resulting in unfavourable trade balances for the Soviet Union. The situation was unsatisfactory and these restrictions were adopted as a remedy.

Several points in this later phase of Soviet economic policy in the East are brought out in the following official statement[2] on the subject:

> The Soviet Union is endeavouring to industrialize the exploited countries of Asia so as to sever their dependence on world imperialism.... On the other hand the limitrophe Asiatic countries must promise to export raw materials rather than consumers' goods to Russia, to transact no business with Russian private dealers and not to export goods above the level of world prices as often happens in the case of Turkey.

By special decree of *TSK* (the Central Executive Committee) the Nizhni Novgorod and Baku Fairs were closed in 1930, for the following reasons:

> In view of the fact that the 'planned' principle has assumed a growing importance in our economic structure, that the system of industrial co-operation has developed in the sale of 'kustar' products and that in recent years direct trade relations with the East have increased, it has been decided to close the Baku and Nizhni Novgorod Fairs.[3]

This decree aroused great indignation among the

[1] For full details of this treaty see chapter on Persia.

[2] Quoted without mention of source by B. Ischboldin in *Die russische Handelspolitik der Gegenwart*, 1932 (p. 109).

[3] Cf. *Collected Laws and Decrees of the Soviet Union*,* 1930, vol. 18, no. 209, p. 352.

Persian, Turkish, Afghan, and other Eastern traders who did the largest part of their business at these Fairs under very favourable circumstances. In 1930 the *Gosvostorg* (State Eastern Trading Co.) was organized to deal with all questions of Eastern trade, except imports and exports of oil, cotton, and wool, which were left in the hands of the special organizations concerned. By these means it was intended to control and regularize Eastern trade in future. In abolishing many of the privileges originally enjoyed by Eastern trade the Soviet Government has shown that it is not willing to support the consequences of its avowed altruistic attitude towards the East.

The tendencies outlined in this general introductory survey will emerge more clearly in the following chapters, in which Soviet economic relations and commercial treaties with individual Eastern countries are examined in detail.

Soviet tariffs and the eastern limitrophe countries

Pre-War Russian tariffs. Pre-War Russian import duties were the highest in Europe. In 1912 they averaged 30 per cent. of the value of imported goods though they had been falling steadily since the beginning of the century.[1] Russian industries in the nineteenth and twentieth centuries grew up behind a high wall of protective duties which in the period of Soviet industrialization have been replaced to a large extent by the restrictions of the foreign trade monopoly.

There was a 'special Regulation for imports and exports over the Astrachan frontier and in the Customs area of the Caucasus, Turkestan, and the

[1] Cf. *Messenger of Finance,** No. 10, 1914: 'Absolute and relative degrees of Customs Duties in Russia' (p. 455).

Governments of Semipalatinsk and Siberia'[1] as opposed to the western European Customs frontier, and this roughly corresponded to the present Soviet definition of the Asiatic frontier.[2] According to this Regulation 'all Asiatics entering Russia to sell their goods, enjoy the same rates as regards Customs as the Persians'. Goods of Persian origin were taxed according to the Customs Convention signed with Russia in 1902. It was explicitly stated in this Regulation that 'European products and colonial goods which it is permitted to export to Russia from Persia or other parts of the East are subject to the full payment of duties according to the rate of European tariffs in the case of these goods'. 'No European goods the import of which is forbidden according to the Tariff for European goods may be admitted by the Astrakhan or other Eastern Customs authorities.' By means of this reservation Russia safeguarded herself against the possibility of European or American manufacturers endeavouring to avail themselves of the reduced tariffs established on the Asiatic frontiers, in order to import their goods into Russia across that frontier.

According to Count Witte's dual system, the products of those countries declining to enter into a most-favoured-nation agreement with Russia were subject to special additional duties. On this basis Count Witte entered into trade agreements with a considerable number of countries (e.g. Germany, France, and Austria).[3]

[1] Cf. *Collection of Laws of the Russian Empire,** vols. iv–viii (1912). Published by the Russian Book Co. 'Deyatel', Moscow. Part VII: Laws concerning the Collection of Customs (p. 74).

[2] Cf. *Soviet Tariff Policy* below.

[3] Cf. Margaret Miller, *The Economic Development of Russia*, London, 1926 (p. 51).

As a result of political *force majeure* Russian goods enjoyed very favourable treatment in Persia and Mongolia; there was, however, no reciprocity in this matter. According to the Customs Convention[1] concluded by Russia with Persia in 1902, specific duties contained in three tariffs, A (Russian), B (Persian), and C (Russian), were established for imports and exports between the two countries. Russian goods imported into Persia paid light duties under tariff B; tariff A was also light in the case of Persian raw materials exported to Russia for the young Russian industries; tariff C imposed by Russia applied to many articles important for the Persian export trade but not essential to Russia, e.g. rice, fish, silk, eggs, opium, precious stones, and was very high according to the scale of duties for these items in the general Russian tariff. Goods entering Russia over Turkey's Asiatic frontier were also subject to this tariff,[2] with the exception of tobacco and goods of European origin which were subject to the European tariff. On the other hand Turkey maintained her general high level of duties in the case of Russian imports.[3]

Russia adopted a prohibitive attitude in regard to goods-in-transit through Russia, from Europe to the Orient or vice versa. For example, only packages sent by post were accepted in transit for Persia so as to prevent the extension of German trade in Persia.

[1] Cf. Khan Kazemi, *Le Commerce extérieur de la Perse*, Paris, 1930 (p. 117).

[2] Cf. Boris Ischboldin, *Die russische Handelspolitik der Gegenwart*, Jena, Verlag von Gustav Fischer, 1930 (p. 6).

[3] Cf. *General Report on Trade and Economic Conditions in Turkey*, 1919, Dept. of Overseas Trade, London (p. 123).

Soviet tariff policy. Soviet Russia has adopted and widely applied the principle, already apparent in pre-War Russian policy, of reduced tariffs on goods imported over the Asiatic frontier. Moreover, the special group of Eastern countries under consideration have had many differential import and export duties established in their favour which do not apply to Eastern goods as a whole. Owing to the importance of this Asiatic frontier in Soviet trade, the following definition from the Soviet Customs Code[1] may be of interest:

> The Asiatic trade refers to imports arriving from ports of the Caspian Sea, also across the overland frontier from the Black Sea to the crossing of the frontiers of the U.S.S.R., Mongolia, and Northern China and having as their place of origin the countries adjacent to the Caspian Sea and along the above-mentioned overland frontier.

There is a certain anomaly in the retention of tariffs in an economic system where the State is the only agency authorized to conduct foreign trade operations. In view of the foreign trade monopoly the collection of duties at the Soviet frontier seems very like the childish process of taking money from one pocket and putting it into another. In the beginning Soviet economists deprecated the idea of tariffs in the Soviet Union and for some years it seemed an open question as to whether they should be retained at all in the Soviet economy. There was a good deal of abstract discussion on this point but the practical difficulties of formulating an alternate system were

[1] Extract from *Soviet Customs Code,** Moscow, 1929. Cf. *Collection of Customs' Tariffs.** Press of *Narkomtorg* and R.S.F.S.R., Moscow, 1929 (p. 3).

such that the 1903 Tariff Code actually remained in force until 1923.

Lenin declared in the early days of the nationalization of foreign trade that no customs duties, however high, could protect an impoverished country like post-War Russia from an influx of cheap foreign goods during the period of tentative industrial reconstruction. The only effective barrier to those foreign goods which threatened the Soviet economic plans was the foreign trade monopoly. The arguments later advanced for the retention of tariffs all seem inconclusive and it would appear as if the same results could be achieved by other methods than the complicated and anomalous machinery of the Customs administration and code. It has been said in justification of tariffs that they are a means of control in cases where the Soviet licensing system is relaxed, such as personal luggage entering Russia with travellers, postal packages, &c., and may be regarded as a minor source of revenue;[1] that they are a means of bargaining with other States for tariff concessions for Soviet goods;[2] that their imposition is an additional check on the consumer's taste for 'unnecessary goods'.

The following are some examples of Soviet duties on 'unnecessary goods': haberdashery materials, 400 per cent. *ad val.*; spices, pepper, ginger, &c., 800 per cent. *ad val.*; chocolate, condensed milk, confectionery, 10 roubles a kilo; black tea, 170 per cent. *ad val.* The tax on tea changes frequently. This is the latest duty imposed in January 1932.

[1] Cf. *Memorandum on Foreign Trade of the U.S.S.R.*, Birmingham Bureau of Research on Russian Economic Conditions, No. 2, p. 2, 1931.

[2] Cf. Kaufmann, *The Organisation of Russian Foreign Trade,** Moscow, 1929 (p. 56).

A much more plausible argument for tariffs than any of those mentioned is that by their intervention the difference of price between goods of Russian and foreign origin on the home market is balanced. The organs which enforce the foreign trade monopoly work in a concrete economic field and must therefore reckon with the laws of the market. On this account the foreign trade monopoly does not yet in itself do away with the necessity of balancing these varying scales of prices,[1] and this is one of the present functions of tariffs.

In 1921 the economic life of Russia had so far recovered as to direct attention to the need of adjusting the war-time tariffs to the changed requirements of the country. For several years one high tariff experiment succeeded another. In 1924 most of these piecemeal measures were cancelled by the Autonomous Customs Tariff,[2] which aimed at promoting industrial reconstruction and increasing the depleted resources of consumers' goods. Agricultural produce and raw materials from the Eastern limitrophe countries (Persia, Turkey, Afghanistan, Mongolia, Tana Tuva, and western China) were exempted from nearly all duties under the special Asiatic provisions of this 1924 tariff.[3] Strong pressure was used to induce Turkey and Afghanistan to reduce or abolish

[1] Cf. Ischboldin, op. cit., p. 103.

[2] The Ninth All-Union Congress of Soviets decided that in principle tariffs should be maintained three times lower than the pre-War level. No branch of Russian production at this time could attempt to satisfy the needs of the country. For tariff cf. *Collected Laws and Decrees of the U.S.S.R.*,* No. 5, p. 53.

[3] For tariff cf. *Collection of Customs' Tariffs of the U.S.S.R.*,* published by *Narkomtorg* Press, Moscow, 1929 (p. 303).

their export taxes on wool in view of these exemptions, but both countries still adhere to them. This tariff was later taken as the basis of the conventional duties established by Soviet commercial treaties with other countries, e.g. the Soviet-Italian Commercial Treaty. It is interesting to note in this connexion that it is the European tariff and not the modified Asiatic form which is applied in the Far East, probably as a measure of protection against Japanese manufactured goods. None of these special advantages offered to Eastern trade in regard to customs duties or the foreign trade monopoly in general are included in the most-favoured-nation clause of Soviet commercial treaties with other countries and this is explicitly stated, for example, in the commercial treaties with both Persia and Turkey.[1]

As Russian productive forces in industry and agriculture recuperated it was felt that higher tariffs were necessary to protect industry and reduce the large quantity of consumers' goods imported from the East (while still giving them precedence over similar imports from the West). A new Autonomous Tariff was therefore set up in 1927.[2] Import duties were increased on semi-manufactured and finished goods. A separate differential system was established for Eastern exports and imports. Accordingly goods imported into the Soviet Union across the Caspian Sea and across the Asiatic land frontier were subject to specially reduced duties. The chief articles to

[1] For details of these treaties cf. chapters on Turkey and Persia below.

[2] For tariff cf. *Collected Laws and Decrees of the U.S.S.R.*,* 1927, no. 8, p. 113.

benefit were: *rice*, free (20 per cent. *ad val.* duty across other frontiers); *undressed hides with hair*, free (15 per cent. *ad val.* duty across other frontiers); *fruit*, from Turkey, free (3 roubles duty per 100 kg. if imported over any other part of the Asiatic frontier); and *raw cotton*, *wool*, *milk*, *butter*, *cheese*, *and eggs*, on which minimum duties were imposed.

This tariff was amended in 1930[1] but remained substantially the same so far as the Eastern differential tariff was concerned. The duties on certain articles like tea and silk are changed so frequently by decrees of *TSIK* (the Central Executive Committee) and *SNK* (Council of People's Commissars) that the official bulletins must be consulted to know exactly what they are at any given moment.

Apart from these autonomous tariffs Russia has also established separate conventional tariffs with her Eastern neighbours, Persia and Turkey, granted special unilateral export and import exemptions from her tariffs to Afghanistan,[2] pending a commercial treaty which has been hanging fire since 1921, and sanctioned virtual free trade with Mongolia.

The Tariff Agreement concluded with Persia in conjunction with the Commercial Treaty of 1927, had been the subject of difficult negotiations since 1921. Whereas the fiscal aspect of customs duties is minimized in Soviet Russia owing to the operation of the foreign trade monopoly, such duties have always been regarded by Persia as a main source of revenue.[3]

[1] Cf. *Collected Laws and Decrees of the Soviet Union*,* 1930, No. 4, pp. 65–87.

[2] Cf. *Collected Laws and Decrees of U.S.S.R.*,* 1925, p. 309 (Decree of *SNK*, 26. ix. 1925).

[3] Cf. Kazemi, *Le Commerce extérieur de la Perse*, op. cit., p. 122.

Persian merchants and economists were far from satisfied with the 1927 tariff arrangement with Russia on account of the low Persian export tax on Persian agricultural produce[1] (a large item in the Persian trade balance) and the minimum import duty on oil products (1 per cent.), from which as well as from the duty on cotton cloth (fixed at 3–5 per cent.), they claim that a much larger revenue might have been obtained.[2] The low tax on petrol and oil products was made a *sine qua non* of Russian acceptance of the 1927 Soviet-Persian Commercial Treaty. Persia first demurred but northern Persia is so dependent on the Russian market in the present state of Persian communications that a Soviet boycott of Persian goods in 1926 finally forced her to accept the Soviet terms.

Persia reserved her right to revise this 1927 Customs Agreement in the case of obtaining her tariff autonomy[3] within the next five years. At the World Economic Conference in 1927 the Persian demand[4] for tariff autonomy was accepted by the assembled Powers including the U.S.S.R. and Great Britain and accordingly a new Customs Convention[5] was concluded with the former in 1928. The revised convention contained an aggravating clause to the effect that it

[1] This tax was a survival of the old tax imposed by the Customs Convention of 1902 under Russian influence.

[2] Cf. Kazemi, op. cit., p. 123.

[3] According to the Treaty of Torkmanchi Persia promised to add nothing to the duties fixed by this Treaty without the consent of Russia.

[4] Cf. *Report of World Economic Conference*, League of Nations, Geneva, 1927. Persian delegate's statement. Vol. i, p. 245.

[5] Cf. *Collected Laws and Decrees of U.S.S.R.*,* 1928, No. 17, p. 73, for text of this Customs Convention.

should remain in operation for eight years, the maximum period allowed by Persian law, but it was otherwise substantially the same as the 1927 Agreement.

In spite of the reduced importance attached to customs duties in the Soviet economy, Soviet tariffs are extremely complicated. In the first place there are the autonomous tariffs, containing four differential tariffs applied to goods coming over: (*a*) the Western European frontier; (*b*) the Murmansk and White Sea ports; (*c*) the Far Eastern frontier; (*d*) the Caspian Sea and Asiatic land frontier. Secondly there are the conventional tariffs[1] concluded with Persia and Turkey and some European countries, which are established on the principle of a percentage of reduction on the duties fixed by the General Autonomous Tariff. Finally, the frequent variations in various items of these tariffs in accordance with Soviet economic developments have always to be considered.

Goods-in-transit. The question of goods-in-transit has always been extremely important for Russia owing to her situation midway between Europe and Asia. It has been specifically dealt with in various treaties between the Soviet Union and its neighbours, including Germany, Persia, Turkey, Afghanistan, and Mongolia. The transit policy of the Soviet Union differs from that of pre-War Russia in conceding the limitrophe Asiatic countries the right of transit to Western Europe, though it has not entirely

[1] Cf. Varchaver, *Le Commerce extérieur et la politique commerciale de l'Union Soviétique*, Institut d'Études Économiques de Moscou, 1926, p. 162.

abandoned pre-War policy in so far as goods from Western Europe to Asia are concerned. The Soviet attitude to this question is summed up in a decree of *STO* (Council of Labour and Defence) which was published in 1928. According to this decree Russia reserves free transit through the Soviet Union to goods from those countries which have concluded a commercial treaty with her and with which the question of transit traffic has been definitely arranged. That is to say, apart from the position of the dispatching or receiving country, goods-in-transit through the U.S.S.R. must *originate* in a country having concluded a commercial treaty with the U.S.S.R. This decree was chiefly directed against China with whom no commercial treaty existed and also was a blow to Belgian trade with Persia chiefly in sugar. Cargoes perforce taking the long sea and caravan route to northern Persia cannot compete with Soviet sugar, etc., landed at the Caspian ports.[1] German exports to the East were not much affected by this measure, because Germany is in the first place

[1] In a communication made by the Director-General of the Belgian Ministry of Transport to the *Chambre Syndicale de l'Exportation*, Brussels, the difficulties caused by the lack of transit rights through the U.S.S.R. are clearly illustrated: 'Our commerce is handicapped in the area of Teheran and in fact in the entire North of Persia by the fact that we have no diplomatic relations with Russia. . . . Only postal packages are accepted in transit through Russia. Once, when the "Comptoir Belgo-Persan" wished to obtain an order for braces and garters, several hundreds of small packages arrived in Teheran containing each three pairs of braces and six pairs of garters! This necessitated an enormous expenditure on postage when under similar circumstances a French or Italian firm could have had the whole lot sent in a small case with a minimum charge for freight.' Cf. *Les Relations Belgo-Persanes*, reprint of the *Chambre Syndicale de l'Exportation*, Brussels, 1930.

interested in the free transit of goods to Persia and this right remained intact. It is interesting in this connexion to note that the Polish and Czech goods on the Chinese market find their way there by sea and not via the Trans-Siberian railway. Finally this decree forbade free transit of cotton goods, sugar, soap, and many other manufactured products in transit from Europe through Russia, as it was feared that if freely accepted they would injure the Russian market for these commodities in the East. In practice, however, the reservations in regard to veterinary precautions, 'overriding economic considerations in the U.S.S.R.', &c., which always protect these transit agreements, are so frequently and arbitrarily invoked by the Soviet authorities as to render the abstract rights *in se* of little real value. In the case of Persia in particular this question of goods-in-transit has led to many disputes. At the present time the Soviet Government will not accept silk in transit to Europe from western China, and is thus able to control the market entirely.

Forms of relationship between Soviet Russia and various Eastern Countries

The economic aims pursued by the Soviet Union in the East do not differ fundamentally from country to country. Sometimes they may seem to vary because of the changing political scene and the need to defer to it. Sometimes the long-haul objective is obscured by the emphasis on some immediate but secondary consideration. On the other hand the tempo at which these aims can be pushed forward depends to a very large extent on the basis of relations between the Soviet Union and the particular country concerned, and this assumes many different forms. Obviously trade activities in countries like Persia or Turkey associated by treaty with the Soviet Union

must be more cautious than in Mongolia, which is being rapidly assimilated in all but name to the Soviet Union or in the former Emirates of Khiva and Bokhara, good examples of incorporation.[1] Thus on this triple basis of treaty, assimilation, and incorporation Eastern countries are linked to the Soviet Union, while in the background looms the Soviet Union Constitution binding together a motley collection of other Eastern peoples.

Apart from Turkey and Persia, which are linked to the Soviet Union by commercial treaties, formal trade agreements have also been concluded by the Soviet Government with the Provincial Authorities of Sin Kiang in 1925 and 1932, without any deference to the Central Chinese Government. A commercial treaty has long been in process of negotiation between Afghanistan and the Soviet Union but up to the present has not materialized to implement the Treaty of Friendship (1921) and the Pact of Non-Aggression[2] (1931) which are the actual bases of relations. Nevertheless Afghanistan has been allowed to benefit by the

[1] With Khiva a 'formal' commercial treaty was exceptionally concluded in 1920 whereby *inter alia*:

(*a*) All trade was to be transacted through the respective government organizations;

(*b*) Private trade was abolished;

(*c*) *Transport, industry, mining, and agricultural concessions should only be made to countries with a Soviet government.*

(For text cf. Hurwitz, *Die Orientpolitik der III Internationale*, Berlin, 1922, p. 35.)

[2] Cf. *Le Messager de Téhéran*, July 19, 1931: 'Kabul. In an interview to the Press, the Afghan Minister of Foreign Affairs declared: "The new Soviet-Afghan Treaty holds immense possibilities for drawing the two countries together. At the present time negotiations are being conducted for commercial agreements with the U.S.S.R. which will foster the economic progress of Afghanistan."'

most favourable measures instituted by the Soviet Union for Eastern trade and granted the right of free transit of goods (both imports and exports) through the Soviet Union—which is as a rule reserved to those countries with which the U.S.S.R. has concluded commercial treaties. On the other hand, in the present state of economic development, these transit rights are seldom exercised by Afghanistan.

According to the Soviet Union Constitution[1] the economic and foreign affairs of the federated and autonomous republics are directly controlled by the Union Commissariats in Moscow. Many Eastern peoples,[2] Tadjiks, Uzbeks, Kazaks, Kirghiz, with definite if unscientific economic predilections of their own, are affected by this autocratic regulation of their economic life. Owing to the fact that the R.S.F.S.R. is the largest unit in the Union, Moscow's decisions on economic matters, are, practically speaking, absolute. If Moscow's vote is cast for more home-grown cotton to supply the Russian textile industry, Tadjiks, Uzbeks, and such non-Slav peoples of Central Asia must supply it at the expense of other crops and submit to 'planned' collectivization,[3] 'planned' production, and finally 'planned' prices for cotton, in a closed market—although they have little voice in the making of that all-important plan, and may even be faced with starvation as a result of carrying it out.

The assimilation of the economic and political system of a *de jure* independent neighbouring state to

[1] Promulgated in 1922.

[2] The non-Slav elements in the U.S.S.R. are in the proportion of 40:3. (Cf. *La Politique orientale des Soviets. Le Monde slave*, Aug. 1929.)

[3] Forty per cent. of Soviet cotton is now produced in collectivized farms. (Cf. *La Vie économique des Soviets*, No. 125, 1930.)

that of the Soviet Union is a half-way house to incorporation. It is an effective camouflage in cases likely to arouse international complications over sovereignty if territory were openly annexed. Mongolia and Tana Tuva are being subjected to this process. The rapid growth of Soviet trade and the gradual elimination of more successful competitors in both countries seem to indicate that it is working satisfactorily for Soviet economic interests.

CHAPTER II

SOVIET ECONOMIC RELATIONS WITH TURKEY

The pre-War situation

RUSSIA took little direct interest in developing trade with Turkey before the War. Absorbed by political intrigues in the Balkans, Asia, and the Straits she neglected her natural opportunity for closer economic relations with Turkey.

In Persia, Mongolia, western China, even to a certain extent in Afghanistan, Russian diplomats and agents were actively engaged on the eve of the War in promoting Russian commercial interests. They used their influence to obtain concessions for their nationals or the Government, to engineer economic legislation favourable to Russian trade, and thus endeavoured to extend the market for Russian goods in different parts of the East.

This was not the case in Turkey. Between Russia and Turkey lay a wilderness of political suspicion and cross-purposes which entirely preoccupied Russian pre-War diplomacy to the exclusion of all mere economic questions. On the eve of the War one isolated Russian diplomatist, M. Goulkévitch, then chargé d'affaires in Constantinople, ventured to protest against this barren relationship and advocated a complete change of policy in regard to Turkey. In his opinion Russia had not grasped the far-reaching significance of the advent of the Young Turks who would radically transform the economic and social life of Turkey. She was only losing prestige by continuing her traditional policy of truculent

intimidation in Asia Minor, while other powers, and in the first place Italy and Germany, were profitably consolidating their economic position in Turkey. Writing to the Russian Foreign Minister in February 1914, he said:

> The predominating importance of economic questions in Turkey at the present time points to the surest way for re-establishing our influence in the Ottoman Empire. Only material interests can provide a basis for concrete influence and are the sole amicable and decisive means of establishing political prestige. Briefly, in order to regain the position which is ours historically, the shortest way might be to confine ourselves to bilateral discussions with the Turks . . . which must be supported by an economic and commercial understanding binding us closer to Turkey.[1]

The points emphasized in this uncommonly perspicacious diplomatic note have now passed from the realm of good counsel to that of actual policy. Economic problems are the absorbing preoccupation of present-day Turkey,[2] while in Russia a Soviet Government has renounced the former political aims of Russia in favour of that 'economic and commercial understanding' with Turkey unsuccessfully urged on the Czarist Government by Goulkévitch.

Pre-war Russia's lack of definite commercial policy in regard to Turkey and the political antagonism between these two Black Sea Powers obstructed the growth of trade, until the War and revolution swept

[1] Cf. *Die internationalen Beziehungen im Zeitalter des Imperialismus. Documente aus den Archiven der Zarischen und Provisorischen Regierung*, Berlin, 1932, vol. i, no. 265, p. 253.

[2] 'Il faut que nous finissions par apprendre qu'un État moderne n'est qu'un État économique dans la totale acceptation de ce terme.' Cf. *Djumhouniet*, 15. vi. 1930.

away the forces responsible for this state of things in both countries.

Russian exports to Turkey in 1913[1] amounted to 35,783,000 roubles or 2·4 per cent. of the total Russian exports, while the Russian imports from Turkey amounted to 18,440,000 roubles or 1·3 per cent. of the total Russian imports. This trade represented 5 per cent. and 3·13 per cent., respectively, of the total Turkish imports and exports.

The chief Russian exports to Turkey were oil, cereals, sugar, drugs, bricks, lead, and ironmongery, while Russia bought cotton, tobacco, olive-oil, nuts, figs, and dried fruits in Turkey.

Import duties were high on both sides and Turkey enjoyed no facilities from Russia for goods-in-transit (imports or exports). Four times in the course of the last seventy years before the War, the Straits were closed to commercial shipping: in 1853–6 during the Crimean War; in 1877–8 during the Russo-Turkish War; in 1912 during the Turko-Italian War; and in 1914 at the beginning of the Great War. In each case a very marked diminution was immediately shown in the statistics of trade across the Black Sea, which was chiefly in the hands of Turkey and Russia.[2] Each time the Straits were closed, Russia became more determined to control the situation by sweeping Turkey out of her path.

[1] Cf. *Soviet Commercial Year-Book*, 1925 (p. 215, 216), London, Fisher Unwin. There is a considerable difference in the corresponding figures given by the *Messenger of Finance** (No. 8, 1914, p. 344), which are: Russian exports to Turkey: 34·5 million roubles; Russian imports from Turkey: 16·9 million roubles.

[2] Cf. Margaret Miller, *The Economic Development of Russia.* London, 1926, p. 39.

On the other side of the Black Sea the rising tide of Turkish nationalism was expressed in the economic sphere by a strongly protectionist policy. On the eve of the War Turkey announced a general increase of 4 per cent. in all import duties or 11 per cent. *ad val.*, and during the War this 11 per cent. was increased to 30 per cent.[1] In 1913 when these increased duties were first proposed, Russia protested to the Turkish Government, but in the following year seems to have acquiesced in paying them. The price demanded for this complacency was the co-option of a Russian member to the Administrative Board of the Ottoman Debt.[2]

Soviet-Turkish economic relations 1921–7

From the beginning of the Soviet régime in Russia, the Government offered its support to Turkey in her struggle against the 'political financial and economic aggression of bourgeois governments'. This sympathetic attitude was confirmed by the economic clauses of the Treaty of Brest-Litovsk (1918), the repudiation of the Russian capitulations, and the support given to Turkey in all international negotiations, even at Lausanne in spite of divergence over the Straits. It accorded very agreeably with the Turkish national temper of the day and with the determination of the Turkish Government to shake off all forms of foreign control.

In the successive Soviet decrees dealing with foreign trade,[3] Turkey was treated as an Eastern

[1] Cf. *General Report on Trade and Economic Conditions in Turkey*, Dept. of Overseas Trade, 1919, p. 123.

[2] Cf. *Die inter. Beziehungen*, op. cit., for detailed correspondence on this subject between Ministry of Foreign Affairs and Russian Embassy in Constantinople, vol. i, p. 457 (Index to Correspondence).

[3] Cf. *Collected Laws and Decrees of the R.S.F.S.R.*,* *Gosisdat*, Moscow,

country enjoying special exemptions under the foreign trade monopoly—although the larger part of her trade with Russia passed through the Black Sea and the European ports. The following figures[1] are typical of the relative volume of Russo-Turkish trade passing over the European and Asiatic frontiers:

	1926–7	1927–8		1926–7	1927–8
	In thousands of roubles			*In thousands of roubles*	
Soviet imports from Turkey over European frontier .	9,664	13,049	Soviet exports over European frontier to Turkey . .	13,184	14,071
Soviet imports from Turkey over Asiatic frontier . .	1,125	991	Soviet exports over Asiatic frontier .	526	1,119

Turkish merchants were allowed freely to trade in Russia and Turkish goods were exempted from the general licence system, until the commercial treaty signed in 1931. Soviet customs duties were also reduced to the minimum in the case of Turkish imports.

Soviet economic literature at an early stage reflects the Soviet Government's preoccupation with the problem of increasing Russian exports to Turkey and of overcoming strong competition there.[2] Although for several years (1919–24) the commodities available for export were extremely limited, every effort was made to improve the machinery of economic relations with Turkey pending the recovery of Russian productive forces.

Decrees of *SNK, STO*, 1923, p. 1542, No. 88. Ibid., 1924, No. 55, pp. 105–6.

[1] *Statistics from Soviet Union Year Book*, 1929, pp. 281–306.

[2] Cf. *Soviet Encyclopaedia of Exports*,* edited by the Soviet Commercial Delegation, Berlin, 1925 (vol. iii, pp. 529–31).

The 1921 Treaty of Friendship and Alliance between the U.S.S.R. and Turkey did not attempt to regulate their economic relations, except in so far as it authorized the free transit of all goods passing to or from Turkey over the Batum frontier, and confirmed the repudiation of Czarist capitulations and concessions in Turkey. Negotiations were formally opened for a commercial agreement, but six years elapsed before it was signed. In particular, the clauses concerning the diplomatic immunities claimed by the Soviet Government for its commercial representatives gave rise to difficulties. Meanwhile, in 1922,[1] a Turkish branch of *Arcos*, the Russian trading agency then operating in London, was opened in Constantinople. Pending the conclusion of a commercial treaty which would regulate the vexed question of the status of the proposed Commercial Delegation, all Soviet-Turkish business transactions passed through this anomalous channel, for the all-important reason that *Arcos* being duly registered in England, had legal standing in the eyes of the British courts and therefore commanded respect. In 1924 'Russo-Turk', a mixed company working through *Arcos*, was established. Its objects were to attract foreign capital and place Russian coal, cement, anthracite, and any other products eventually available for export from Russia on the Turkish market.

Soviet trade with Turkey picked up more quickly than with any other Eastern country after the War. Between 1921 and 1923 it constituted about 25 per cent. of the entire Russian trade with the East. An impasse in the commercial treaty negotiations at the

[1] *Soviet Encyclopaedia of Exports*,* (vol. iii, p. 530).

end of the summer of 1923 abruptly checked this promising revival of trade. Turkey placed an embargo on Soviet goods in the hope of forcing the Soviets to abandon their position with regard to the diplomatic status of the State Trading Bureau. With the same end in view she even purchased Australian grain in place of Russian, for a short time, at considerable loss. Nothing was achieved by these measures. After a few months, therefore, the embargo was lifted and normal trade relations resumed, leaving the status of the Soviet Trading Mission still in the air.[1]

Apart from legitimate trade a large amount of smuggling had been taking place since the Revolution over the Russo-Turkish frontier into the South Caucasus region. 'In the South Caucasus and above all in Batum, the entire population supports this Turkish smuggling trade; it thus assumes a semi-legal character.'[2] This smuggling was no local fiction, as is proved by the many official decrees issued from Moscow to counteract it, and the Soviet customs statistics of seized goods.[3]

From 1923 till 1927 Soviet-Turkish trade steadily increased, though still remaining well below pre-War proportions except in the case of Soviet exports of wheat, which reached the pre-War level in 1923. In 1922 Turkey introduced a new tariff in which no discrimination was made in favour of Soviet goods. The old export tax on raw materials, which the Soviet Government had striven hard to have abolished,

[1] Cf. *Izvestiya*, 16. iii. 1931.
[2] Cf. Ischboldin, op. cit., p. 181.
[3] Cf. Zagorsky, *Où va la Russie?* Paris, 1928, p. 189.

was retained and all other duties increased.[1] Thus begins to crystallize that policy of economic caution combined with close political *rapprochement* which is so characteristic of Turkey's later relations with the Soviet Union.

The following table[2] shows the position of Russo-Turkish trade between 1923 and the conclusion of the commercial treaty in 1927, as well as the relation of this trade to the total foreign trade of Russia:

	1923–4	% *of total*	*1925–6*	% *of total*	*1926–7*	% *of total*
	(*pre-War roubles*)		*In thousands of roubles*			
Soviet exports to Turkey	10,222	5·0	17,700	2·7	13,710	1·9
Soviet imports from Turkey	593	0·4	9,800	1·3	10,789	1·5

Among the Russian exports the largest increases were in oil products, sugar, cotton textiles, wheat, and ironmongery. The trade balance was regularly in Russia's favour, though the total volume of trade with Turkey was still a small matter.

The commercial treaty of 1927

After six years of oft interrupted negotiations the first commercial treaty between the Soviet Union and Turkey was signed in 1927. The Soviet press hailed it as the seal of Turko-Soviet friendship, but the Turkish attitude is very differently expressed in the Preamble introducing the official Turkish text of the treaty for ratification. There is no mistaking the apprehension felt about the clauses relating to the long contested immunities and exterritoriality for the

[1] Cf. Ischboldin, op. cit., p. 133.

[2] Statistics from *The Soviet Union Year Books*, 1925, 1927.

Soviet Commercial Delegation, in this statement[1] of the Turkish Government:

As the foreign trade of Soviet Russia is regulated by a monopoly system, we in our turn are forced to admit the commercial representation the recognition of which has been made a *sine qua non* by the Soviet Government, in all the commercial agreements concluded with other States. ... The Soviet delegates insisted on the establishment in certain Turkish towns, apart from the headquarters at Angora and the office at Constantinople, of other branches of the Commercial Delegation, in particular at Smyrna, Trebizond, Mersina, Erzeroum, Konia, Kars and Artherin. After long negotiations we prevailed on them to abandon the offices in Kars and Artherin. [*In the end the Turks only granted exterritoriality in the case of the Stamboul delegation.*[2]] To safeguard reciprocity of principle we had a special clause inserted in the Treaty by which the same privileges are assured to us, if we should decide to establish a commercial delegation in Russia.

The information with regard to customs is more encouraging:

With certain reserves we have had the most-favoured-nation clause applied. Thus our agricultural and industrial products entering Russia, as enumerated in Lists 1 and 2, benefit by the treatment reserved to the most favoured nation, which the Soviet Government has never formerly wished to cede to a European State.

That is to say, in the case of goods from Turkey, the same favourable tariff system is to apply as in regard

[1] Affixed to text of the treaty in the Turkish Legislative Code. Cf. *La Législation turque, recueil des lois, décrets et règlements de la République turque.* Istambul, 1929, vol. v, pp. 356–7.

[2] Cf. *Die auswartige Gewalt der Sowjet-Union.* Dr. Jur. W. von Metzler. Rothschild, Grunewald, 1930 (p. 72).

to Persia and the other countries of the privileged Eastern group. *Article 5* of the Treaty also guaranteed most-favoured-nation treatment in respect of the acquisition, possession, and protection of property on a reciprocal basis.[1] A list of the products—mainly fresh and preserved fruits, nuts, livestock, oil, and vegetables—which might be imported into the Soviet Union by Turkish merchants without licence, subject to the annually established contingents, was appended to the Treaty.

Thirty per cent. of the entire list of imports and 80 per cent. of the consumers' goods might be imported directly by Turkish merchants. The rest, 70 per cent. of raw materials (tobacco, hides, cotton, jute, raw silk, and wool—in fact the most important part of the Turkish export trade) and 20 per cent. of the consumers' goods imported, were reserved for the Soviet trading organizations. It was expressly stipulated, however, that in the event of the Soviet organizations not availing themselves of these quotas, the Turkish organizations might do so.

'In granting these facilities to Turkish commerce', declared the Soviet Government, 'we are convinced that for the future, economic relations between the two countries are established on a thoroughly satisfactory basis for both great friendly powers.'[2]

Such was the Soviet epilogue to the Treaty.

How in fact did it work?

Soviet-Turkish trade 1926–30

Though still a relatively small percentage of Russian foreign trade, trade with Turkey increased by

[1] For comments on legal aspects of this reciprocity, see next chapter on Persia.

[2] Cf. *La Vie écon. des Soviets*, April 1927, p. 2.

31 per cent. between 1926 and 1930, while during the same period the total foreign trade of Turkey decreased by 30 per cent.[1] There was a further succession of trade balances in favour of the Soviet Union, as the following statistics show:

	1926–7[2]	% of total	1927–8	% of total	1928–9	% of total	1929–30[3]	% of total
	In thousands of roubles							
Soviet exports to Turkey	13,710	1 9	15,190	0 5	17,450	2 0	16,500	1 6
Soviet imports from Turkey	10,789	1 5	14,042	1 8	12,116	1 4	9,900	0 9

The nature of the commodities exchanged between Turkey and the Soviet Union largely explains these favourable trade-balances for the latter country, in spite of Turkish import duties and the very reduced purchasing power of the country after the War. The Russian exports to Turkey—grain, oil products, coal, timber, metals, and cotton textiles—are all necessary articles which Turkey is disposed to buy. On the other hand, the Turkish exports to Russia, with the exception of raw wool and cotton, are rather luxury articles—carpets, fruits, nuts, tobacco—which Soviet policy aims at excluding or restricting as far as possible.

Though the above statistics do not show any very considerable absolute increase in Soviet exports to Turkey, the position of the Soviet Union in Turkish foreign trade has relatively improved and gained on other competitors. The Soviet share in Turkish imports grew from 3·6 per cent. in 1926 to 7·2 per

[1] Cf. *Economic Review of the Soviet Union*, Feb. 15, 1932.
[2] Cf. *The Year Book of the Soviet Union*, 1929, 1930.
[3] Cf. *League of Nations Balance of Payments*, 1932, p. 259.

cent. in 1930, and there were large increases in the sugar, coal, wheat (600 per cent. increase), and cotton textiles imported from the U.S.S.R.[1]

It was expressly stated in the 1927 Treaty that Turkish merchants should have the right to export currency from Russia to Turkey (up to 30 per cent. of their gross profits), but the Russian authorities disregarded these regulations, prevented Turkish merchants from removing their money, insisted that it should be entirely spent in the U.S.S.R., and thus forced them to export Soviet goods to Asia Minor.[2] These efforts of the Soviet Government to retain foreign valuta by any means in their power led to a series of disagreements with Turkey. The Turkish Government officially protested to the Soviet Government about this matter (although the *démarche* was scarcely noticed) and in the same note drew attention to the difficulties experienced even by Turkish Consulates in the Soviet Union, in changing the money received for visas, &c., into Turkish currency.[3] The Turkish official journal, *Milliyet* (20. vi. 1929), contains several other complaints of the same nature. Turkish merchants' money was seized in Soviet Banks and their goods confiscated for non-payment of taxes imposed, it was asserted, contrary to the Commercial Treaty.[4] While the Soviet Government was thus pursuing a very arbitrary course in regard to certain Turkish economic interests, no opportunity was lost of discrediting the 'bourgeois Western capitalists' in the

[1] Cf. *La Vie économique des Soviets*, Paris, Feb. 1931, No. 131, p. 14.
[2] Cf. Ischboldin, op. cit., p. 198.
[3] Cf. *Oriente moderno*, April 1929, p. 171–2.
[4] Ibid.

eyes of Angora. The Ottoman Debt was a favourite pretext for commiseration with Turkey and there is little doubt that Karakhan's visit to Stamboul in 1930[1] strengthened the popular feeling that it was an intolerable burden for the impoverished Turkish exchequer.

The Soviet-Turkish Commercial Treaty of 1931

A new commercial treaty[2] was concluded between the Soviet Union and Turkey in 1931 which is the basis of their present economic relations. Throughout the year 1930–1, the Turkish Chambers of Commerce[3] and a large section of the Turkish press[4] gave vent to angry protests against the asserted influx of Soviet goods. In March 1931 the *Yilmaz* wrote as follows: 'The invasion of the market by Russian coal, the ruin of the cement industry, the fact that the exportation of Turkish tobacco is now impossible to Germany and of wheat to Greece, owing to Soviet competition, the threat to our cotton textile industry, make an inquiry into Soviet dumping necessary.' The Government was energetically petitioned on several occasions to open an investigation into the effects of these Soviet imports on national enterprise. The reply of the Turkish Minister of Commerce to these appeals was evasive but firm: 'Measures against dumping would lead to a denunciation of the Soviet-Turkish Commercial Treaty. As long as I am Minister of Commerce, I would not assume the responsibility for a measure of this nature, but if you

[1] Cf. *Izvestiya*, 8. iv. 1930; *The Times*, July 22, 1930.

[2] For text see *Collection of Laws and Decrees of U.S.S.R.*,* part ii (pp. 491–513), Nov. 11, 1931.

[3] Cf. *Djumhouniet*, 3. iv. 1931.

[4] Cf. *Bulletin périodique de la presse turque.* Ministère des Affaires Étrangères, Paris, 1931.

have any other propositions to make I promise to investigate them with the greatest care.'[1] On the other hand, it must be remembered that the Soviet dumping scare spread like wildfire from one country to another in 1931 and that facts of this kind are extremely difficult to prove, as much in Turkey as elsewhere. Taking two cases in point, Soviet textiles and cement, the menace to Turkish industries was probably more hypothetical than real. The Turkish textile industry is heavily protected, but with only some 80,000 spindles in the country it is not yet in a position to use even half of the raw cotton produced in Turkey, let alone to supply the needs of the people for cheap cotton cloth. As the overwhelming majority of the Turkish population are peasants whose purchasing power is reduced to the minimum at the present time, there is no doubt a large market for Russian cotton goods. Hence the cry of 'dumping' from the home manufacturers, which in this case scarcely seems justified. Incidentally Italy and Japan and not Russia are the leading exporters of textiles to Turkey.

A little investigation of the outcry from the Turkish cement industry points to the same conclusion. The Turkish cement factories are now producing sufficient supplies for the needs of the country.[2] Russian imports of cement were never large and in fact fell from 8,785 tons in 1931 to 534 tons in 1932.[3]

The interesting point about this 'Soviet dumping'

[1] *Djumhouniet*, 13. ii. 1931.

[2] Cf. *Economic Conditions in Turkey*, Report, Dept. of Overseas Trade, 1932.

[3] Cf. *Foreign Trade*,* Dec. 1932.

charge in Turkey (however exaggerated it may actually have been) is that it should have arisen at all in an Eastern country towards which the U.S.S.R. professed the most loyal and friendly sentiments, and that at the same time the greatest suspicion of the activities of Soviet trading organs was constantly expressed by the Turkish Chambers of Commerce, merchants, and industrialists.

When the 1931 Commercial Agreement with the U.S.S.R. was presented to the Turkish Grand Assembly, some deputies complained that they had not been given adequate opportunity for providing against the dangers of dumping. The Ministers of Foreign Affairs and of Commerce defended their action by saying that 'the cordial relations existing between Turkey and the Soviet Union might be considered as sufficient guarantee against unfair competition in the form of dumping'.[1] This kind of blind man's buff is a common resource of the Turkish and Soviet Governments when for one reason or another they wish to avoid plain speaking with each other.

The Soviet press and M. Litvinoff's speech[2] in Stamboul on the occasion of the ratification of this Treaty were so exuberant as to suggest some substantial new developments in the Soviet-Turkish economic situation. An examination of the text,[3] however, discloses nothing more remarkable than a few amendments to the 1927 Commercial Agreement. The only

[1] Cf. *La Correspondance d'Orient*, Aug. 1931.

[2] Cf. *Izvestiya*, 28. xi. 1931.

[3] Cf. *Collected Laws of the Soviet Union, Gosisdat,** Moscow, 1931, No. 18, p. 247.

important innovations are: (*a*) the introduction of the 'net-balance principle' (as a safeguard for Turkey against unrestricted Soviet imports); (*b*) the renunciation by the Turks of the right to export goods freely into the U.S.S.R. as still obtained under the 1927 Agreement. According to this 1931 Treaty, the Soviet commercial delegation is clearly stated to be subject to the 'laws and jurisdiction of Turkey'—an unusual concession on the part of the U.S.S.R. The text runs as follows:

> Legal acts of the commercial representation effected in Turkey and the economic consequences of these acts will be subject to the laws and jurisdiction of Turkey. Likewise the seizure of the goods of the Union of the Soviet Republics in Turkey will be permitted, in so far as there is no question of objects intended for use, according to international law, by the representation of the sovereign power of the country or in connexion with the official activity of its diplomatic or consular representatives.[1]

As a result of this ruling the Turks have been more successful than their Persian neighbours in curtailing the privileges claimed for these official trading organizations by the Soviet Government.

Under the circumstances the jubilant acclamation of this Treaty in Moscow requires some explanation. M. Litvinoff's cordial statements concerning Soviet-Turkish economic policy, his optimistic analysis of the factors inevitably linking the two countries in closer economic co-operation, and the elaborate emphasis on Soviet-Turkish friendship found in the Soviet press at this time[2] were certainly deliberately

[1] Extract from text of Treaty in *Collected Laws of Soviet Union*,* 1931.

[2] 'On the tenth anniversary of the Moscow Treaty (1921) we can say with feelings of the greatest satisfaction, that Soviet-Turkish

staged. There are obvious reasons for this. In the first place the Soviet Government is anxious at all costs to maintain the semblance of solidarity with the East. It would not help its propaganda in other Eastern countries if the commercial practices of Soviet trading organizations in Turkey, as described in the Turkish press, were widely disseminated, and it is a remarkable fact that no echo of the acrimonious atmosphere surrounding Turko-Soviet trade is allowed to find its way into the official Soviet press.[1] The Soviet Government wishes to preserve a united political front with Turkey on the international stage and seems therefore determined to camouflage these economic tiffs as far as possible.

'There is no doubt', wrote *Izvestiya* in a special leader on Soviet-Turkish relations in November 1931, 'that in the immediate future with the growth of the industrial power of the U.S.S.R. Soviet-Turkish friendship will increasingly extend to new fields of economic co-operation. For Turkey this economic co-operation with the U.S.S.R.—the only government not pursuing aggressive ends and a deliberate subjugation policy and aiming at the economic uplift of Eastern countries (and in particular of Turkey)—is of first-class importance. The war waged by Western imperialism against Turkish independence is

relations represent one of the most brilliant pages in the history of the external relations of the U.S.S.R.' *Izvestiya*, 16. iii. 1931.

[1] On the other hand 'the bourgeois' character of the Kemalist Government is often emphasized in the Russian newspapers and periodicals of Central Asia and the East for the benefit of the Moslem populations of these regions who are suspected by Moscow of harbouring sympathies for the Stamboul régime and their co-religionists in Turkey (e.g. *Turkmenskaya Iskra* (the Turcoman Spark), *Pravda Vostoka* (the Truth of the East), *Novy Vostok* (New East), *The Bulletin of the Press of the Central East*. . . . Cf. *Asiatic Review*, April 1930, No. 26, pp. 324–30).

far from over. The holders of the so-called Ottoman debt do not consider the precarious financial situation of Turkey and demand full payment of their bonds. In the sphere of foreign trade the activity of foreign capital is confined to the rapacious exploitation of the Turkish peasantry. Turkey is confronted with complicated problems in improving her economic position. In her serious difficulties she can expect no help from her Western neighbours. *The obvious powerlessness of capitalistic countries to bring about even temporary economic alleviation of the crisis, the impotency of the League of Nations, the growth of reaction in England, and the increasing menace of War all reduce Turkey's hope of receiving economic support from the West to the thinnest fiction.* Under these circumstances the tried friendship of the Soviet Union will prove exceptionally valuable.'

Such a statement is typical of that patronage-of-the-East attitude assumed by the Soviet Government at the Baku Congress in 1920 and since then tenaciously maintained in the face of conflicting undercurrents of policy and purpose, as in the present case.

Analysis of the present position

The Soviets have had ample time and opportunity to test the economic temper of Turkey. They have reason to know that Turkish commercial circles watch their activities with growing suspicion and alarm. While assenting to Soviet protestations of friendship, the Turkish Government is evidently in no mood to repudiate the West nor to placate the Soviet Union at the expense of its own economic interests. In spite of Soviet pressure, Turkey recently joined the League of Nations, evidently placing more confidence in a hypothetical League loan to help her in financial need, than in Soviet promises. At the same time in a series of notes to Moscow the Turkish Government was at considerable pains to point out that this step

should not affect the cordial relations existing with the U.S.S.R. During the first period of the Disarmament Conference (1932) while the Soviet and Turkish Delegations were apparently making common cause at Geneva, the Soviet Trade Bureau in Constantinople was called on to pay the subscription to the Turkish Chamber of Commerce (to which all foreign commercial firms in Turkey must belong). The Bureau refused to pay on the grounds of its diplomatic status. The Court overruled this objection and ordered the Bureau to pay an additional £T2,000 as fine for the delay in payment.[1] This small incident is typical of Turkey's attitude to the U.S.S.R.

The Soviet Government now realizes that the only means of increasing its share in Turkish foreign trade is to offer Turkey a better bargain than she could elsewhere obtain. On the occasion of General Ismet Pasha's visit to Moscow in May 1932,[2] the Soviet Government offered Turkey a credit of $8,000,000 to purchase agricultural and industrial machinery in the U.S.S.R. (an innovation in Soviet technique, as the U.S.S.R. is usually the debtor in such transactions), and presented Turkey with 10 tractors, 5 tanks, 2 lorries, and a motor-bus. No interest was demanded on this loan, and it is to be liquidated over a period of twenty years by Turkish produce. Turkey has made a good bargain provided that the Soviet machinery proves more reliable than the tractors and lorries which have been making economic history in the U.S.S.R. during the first Five Year Plan period. In spite of her industrial projects, Turkey is essentially

[1] Cf. *The Times*, April 20, 1932.
[2] Cf. Ibid., May 8, 1932.

an agricultural country and one of the hardest hit in Europe by the recent slump in prices. Her need for modern agricultural equipment: motor tractors, lorries, wool- and cotton-cleaning machinery, fertilizers, &c., is far greater than the very limited purchasing power of the large population of peasant farmers can afford. This Soviet Loan was therefore a very attractive proposition for Turkey, enabling her to needs the industrial goods she very badly needs in exchange for her agricultural products which under present economic conditions she can scarcely market otherwise.[1]

In spite of the outcry in the Turkish press and in Turkish commercial circles about Soviet dumping and unfair competition, Turkey has been peculiarly successful among Eastern countries in her twofold policy of economic independence and political *rapprochement* towards the Soviet Union. The high Turkish tariff, the quota system,[2] and the general trend of Turkish economic legislation (allowing no discrimination in

[1] When the manuscript was with the printers it was announced in the Turkish press that a Turkish Delegation had gone to Odessa to acquire the necessary machinery for Turkish cotton-weaving factories. 'After visiting Moscow and Leningrad, the Delegation will return to Istambul with a group of Russian experts under the leadership of Professor Orloff, who is working out plans for the Turkish factories.' Cf. *Milliyet*, March 10, 1933.

[2] *The Quota Decree* (16. xi. 1931) states that: 'Countries which supply Government or State-subsidized concerns will be called on to purchase Turkish produce for an equal value to the goods supplied, failing which permission will not be given to meet obligations.' Cf. *Oriente moderno*, Dec. 1931. N.B.—This Turkish Quota Decree runs directly counter to the regulations in the 1931 Perso-Soviet Commercial Treaty regarding supplies imported for the Persian Government or Government monopolies, such imports being entirely exempt from the operation of the 'net-balance' principle or the necessity for exporting Persian goods to balance the imports.

favour of the Soviet Union) have kept Soviet imports at a relatively low and innocuous level. Though the Soviet trading organizations have done their best to increase trade, Turkey buys from the U.S.S.R. when it suits her purpose and not otherwise. It is significant of her independent attitude that she is the only Eastern country in which the Soviets have not secured the match monopoly.[1]

Soviet exports to Turkey are undoubtedly gaining ground in relation to the total imports, though they fluctuate very considerably owing to the severe restriction of all imports ordered by the Turkish Government. From being 2·54 per cent. of the total imports in 1925, the Russian share rose to 7·19 per cent. in 1930[2] and Soviet Russia occupied seventh place among the countries exporting to Turkey in 1930–1, a considerable jump from being twelfth on the list in 1926.[3] During this time the quantities of cotton and wool exported by Turkey to the U.S.S.R. also increased very greatly and in 1930 the U.S.S.R. was one of Turkey's best customers for cotton. Since 1930, however, these Turkish cotton exports to the U.S.S.R. have showed a sharp decline.

Neither statistics nor the impartial reports of competent observers[4] indicate that in the present state of Turkish industrial development, Soviet imports are actually a menace to domestic industries, as certain commercial circles in Turkey assert. On the other

[1] Cf. *Izvestiya*, 8. iv. 1932.

[2] Cf. *Annuaire statistique de la République turque*. Quatrième vol. 1930–1, Istanbul, 1931.

[3] Cf. *Il Messaggero degli Italiani*, 28. i. 1932.

[4] Cf. *Economic Conditions in Turkey*, Reports of Dept. of Overseas Trade, 1928, 1930, 1932.

hand, should Turkey relax her vigilance over imports from the Soviet Union, the financial pressure of the second Five-Year Plan and the desperate need of new markets for Soviet products might expose the foundations of modern industry now being laid in Turkey to considerable danger from this quarter.

The following programme was outlined for Turkey by a well-known Turkish publicist[1] in 1932: '*rapprochement* of Turkey and the League of Nations, without detriment to the cordial relations existing with the U.S.S.R.; collaboration with the West; the realization of long term loans and of schemes of public works with the aid of the League of Nations.' It seems extremely likely that the Turkish Government will follow a similar policy of expediency in the future, taking the best which the West and Russia have to offer. It is not yet equally clear, however, how far the Soviet Government will court Turkey's friendship now that she has crossed the political rubicon to the League.

[1] Zeimel Khedive Bey, owner of the Turkish paper *Khizmet*.

CHAPTER III

SOVIET ECONOMIC RELATIONS WITH PERSIA

THE economic factor loomed largely in pre-War Russian ambitions and intrigues in northern Persia. Since the middle of the nineteenth century when the cotton textile industry was organized on modern lines in Russia, the cotton growing regions of Persia had been coveted by Russia. Moreover the droughty regions of Transcaspia and Turkestan depended on the fertile provinces of northern Persia for grain. Russia occupied a predominating position in Persian foreign trade owing to the geographical position and the chronic transport difficulties between northern and southern Persia, which debarred outside competitors from northern Persia and left these northern provinces dependent on the Russian market. *The pre-War situation*

The Tariff Convention of 1902 ensured an easy passage into Persia for Russian exports, while Russian loans to the Shah were a favourite and effective means of controlling Persian economic policy in Russian interests. After the Treaty of Torkmanchai (1828), which deprived Persia of tariff autonomy, the situation grew steadily worse, as year by year Russia wrested concessions and privileges of all kinds from Persia's weak and venal rulers.

Diplomatic correspondence between Moscow and the Russian representatives in Persia was frequently concerned with questions of economic expansion and commercial opportunity. This was particularly the case during the years immediately preceding the War.

Much light is thrown on the situation by the documents from the Russian archives recently published by Moscow.[1] From 1912 to 1914 there is no doubt that Russian diplomatists and ministerial departments were actively engaged in promoting schemes for land purchase and colonization, loans and taxation control, which would have given Russia a virtual economic sovereignty in Northern Persia. The Russian objectives were clear: purchase and colonization of land in Persian Azerbaidjan, Astrabad, and Masanderan; no concessions to non-Russians in this region; the right of Russian consuls to collect taxes directly in certain areas so as to ensure the interest on Russian loans to Persia. On the other side, the Persian opposition to these plans appeared equally clear and ineffectual.

Certain clauses of the Treaty of Torkmanchai were interpreted by the Persian and also by the British Governments as prohibiting Russian subjects in common with all foreigners from acquiring land or property in Northern Persia.[2] In the years before the War Russia insisted on a new interpretation of these inconvenient clauses and proceeded to establish Russian colonists on the Persian side of this southern frontier. On June 20, 1914, the Director of the Middle Eastern Department wrote to the Russian Consul in Astrabad: 'Please communicate when information forthcoming concerning properties still available in Astrabad and Gürgen. Let me know the area and

[1] Cf. *Die internationalen Beziehungen im Zeitalter des Imperialismus*, op. cit. For list of documents relating to Persia see vol. i, p. 456; vol. iv, p. 318.

[2] Cf. *Die internationalen Beziehungen*, op. cit., vol. iv, pp. 72–4.

approximate cost. The officials of the Supreme Land Organization Administration are entrusted with their settlement.'[1] The issues involved in the land purchase schemes were neatly summarized in a note of the Russian Foreign Minister to the Finance Minister, dated June 24, 1914:

Apart from the important interests which the Karadagh concession has from the commercial point of view, it is of undoubted political importance for Russia. The concession covers one-tenth of the total area of Azerbaidjan and has been granted for 70 years to the 'Russian Industrial Company'. The company can thus exercise direct influence over the turbulent population of the district. It should now in time turn to peaceful occupations, as a result of being employed as workmen, overseers, or purveyors of supplies by a large Russian enterprise.[2]

So many birds are killed with this wonderful stone that it is little wonder that even the effete Persian Government should have protested to the best of its ability. Russia secured some of the richest land in Persia, including a cotton-growing area which would be invaluable for her textile industry. In the political sphere, the opportunity of directly influencing the frontier population was a better guarantee for this southern frontier than the presence of large armed forces. In another note on this subject from the Russian Chargé d'Affaires in Teheran to the Russian Foreign Minister, the Persian objections to these Russian colonization schemes are mentioned:

On the assumption that the promotion and extension of Russian land ownership in Persia is one of our most

[1] *Die internationalen Beziehungen*, op. cit., vol. iv. p. 186.
[2] Cf. Ibid., No. 115, p. 118.

important tasks, as much from the political as from the economic point of view, I am of the opinion that Ivanov's plan for the purchase and leasing of land by Russian subjects in the provinces of Masanderan and Astrabad is the only one which corresponds to the present needs of the case. The opposition of the Persian Government is easily understood, and although the provisions of the Treaty of Torkmanchai incline slightly in its favour, the ordinary law of the Sheriat is in our favour.[1]

Such were the Russian aims in Persia on the eve of the War. They have been described in some detail, because being the natural aims of Russia and so deeply rooted in geographical circumstances, they may be expected to endure under any form of government in Russia and even to reappear to a large extent under Soviet rule.

Conditions of pre-War Russo-Persian trade

Before the War Russia was the best client of Persia and her chief purveyor of manufactured goods. Her share in the total foreign trade of Persia was 59 per cent., or 55 per cent. and 65 per cent. respectively, for imports and exports amounting to some 7,000,000 krans annually (imports 300,577,858 krans, exports 328,980,000 krans).[2] Russia bought 94 per cent. of the cotton, 98 per cent. of the rice, 65 per cent. of the skins and hides, and the greater quantity of the fruit, live stock, and gums exported from Persia. Persian cotton was manufactured in Russia and reimported as part of the enormous quantities of textiles[3] which

[1] *Die inter. Beziehungen*, op. cit., vol. i, No. 90 (p. 76).

[2] Cf. *Le Commerce extérieur de la Perse*, Khan Kazemi, Paris, 1930, pp. 101–2.

[3] In 1913 Russia exported 16,180,000 roubles' worth of cotton goods to Persia. Cf. *Messenger of Finance*,* No. 6, 1914, p. 256, 'Russian cotton manufactures on the Persian market.' In 1931 these exports amounted to 10,496,000 roubles. Cf. *Foreign Trade*,* Dec. 1931, p. 42.

in 1913 as in 1931 formed the largest item in Persian imports.

Matches,[1] sugar, manufactured metals of all kinds, textiles, and oil products were imported in large quantities from Russia between 1910 and 1913. With regard to the large imports of Russian oil in a country so rich in oil as Persia, it must be remembered that transport between the northern and southern parts of the country was so undeveloped and expensive that the northern provinces were virtually dependent on Russian oil supplies.

In order to promote her trade still further, Russia closed the frontier to goods-in-transit to Persia,[2] established banks to finance Russo-Persian trade, planted Russian agents in key positions in the Persian administration (e.g. the Persian Finance Minister Naus, responsible for the 1902 Customs Convention), and literally bound Persia to her with hoops of steel.

Trade with Russia was regulated on the basis of the 1902 Customs Convention. According to this Convention the raw materials needed for the young Russian industries were lightly taxed but many other articles extremely important for the Persian export trade, i.e. rice, tobacco, silk, eggs, fish, were heavily taxed on entering Russia.

[1] Persia was the chief pre-War purchaser of Russian matches, taking 51·8 per cent. of the total Russian exports in 1913, which represented 75 per cent. of the Persian match demand. Cf. *U.S. Dept. of Commerce Reports*, Feb. 29, 1932, p. 495.

[2] As a result of this measure by which only postal packages were accepted by the Russian Customs authorities in transit for Persia, the postal package service between Persia and Germany increased 100 per cent. during the eight years preceding the War. Cf. Ischboldin, op. cit., p. 126.

The post-War situation and Bolshevik overtures in Persia

The War brought far-reaching changes in the political and economic position of Persia. Chaos prevailed for several years across the Russian frontier, cutting off at once her chief market and source of manufactured goods, which now began to be supplied in increasing quantities by Great Britain.

The establishment of the Soviet Government meant that Persia was confronted by a new Power in Russia which repudiated the arbitrary practices of Czarist Russia towards her and proclaimed itself her friend.

The British occupation of Persia and the campaigns against Turkestan and Baku which were also conducted in Persian territory were deeply resented in Persia. This opportunity of establishing friendly relations was not neglected by the Bolsheviks and their emissaries were for some time welcomed by the Persian Government. The situation quickly changed, however, when a group of over zealous communists occupied Enzeli[1] and opened Persia's eyes to the imminent danger of a Soviet invasion. After the Enzeli affair her attitude towards the Soviet Union was tempered with a new element of reserve and apprehension.

In the purely economic sphere the British had also blundered during their temporary occupation of the country. Certain clauses of the Anglo-Persian Agreement of 1919, by which Persian tariffs on Russian goods were to be increased on an average from 3 to 5 per cent., was a direct attempt on their part to obtain preference for British goods in the Persian market. The *Medjlis* refused to ratify this Agreement

[1] Cf. Fischer, *The Soviets in World Affairs*, Jonathan Cape, London, 1930, pp. 288–91.

and objected in particular to the financial clauses, as an undue interference with Persia's domestic affairs.

British influence in Persia was definitely on the wane from 1920, though Great Britain by this time had supplanted Russia as the chief importer of foreign goods to Persia. This supremacy was only regained for Russia by the Soviets in 1928–9, when, in the words of the British Commercial Attaché in Teheran:

> Russia, thanks to her policy of compelling Persian exporters to take Russian goods in payment and otherwise selling at extremely low prices, has now displaced Great Britain as Persia's chief purveyor of foreign goods, the proportion of Russian imports having gone up from 23·4 per cent. in 1926–7 to 38·4 per cent. in 1928–9. For reasons of her own, Russia has hastened the process by the simple method of undercutting her competitors with little regard for landed costs.[1]

This is not merely the biased report of a disgruntled consular officer; both the statistics and the comments on Soviet trade can be amply substantiated from Persian sources.

Perso-Soviet economic relations, 1921–31

Perso-Soviet economic relations were formally renewed in 1921. A Treaty of Friendship was signed between the two countries by which all Czarist debts, capitulations, &c., were repudiated in Persia and a mixed committee was set up to negotiate a Commercial Agreement. Meanwhile, owing to exemption from the foreign trade monopoly regulations, favourable tariff treatment, and the large demand for Persian live stock and foodstuffs resulting from the

[1] Cf. *Department of Overseas Trade, Economic Condition of Persia*, 1930, p. 24.

disorganization of Russian agriculture, the Persian export trade with Soviet Russia flourished. The opportunities offered Persian merchants to trade directly at the Nizhni Novgorod and Baku Fairs were fully exploited, and the trade balance with Soviet Russia was favourable until 1926. The negotiations for the Commercial Agreement initiated in 1921 were still pending owing to Soviet intransigence on several points alleged to be contrary to Persian interests, i.e. the low import duty on Russian oil products, and partly because of the Persian hesitation to grant diplomatic immunities to the Soviet Delegation. A provisional trade agreement[1] was signed in 1924 but was not ratified by Persia. It has little interest except in connexion with these disputed immunities which by this agreement Persia only granted to the Trade Commissioner and his representative and did not extend to the premises of the Trade Delegation. In 1926, without warning, the Soviet Government placed an embargo on Persian goods. The result was disastrous for Persian agricultural interests and a bitter reminder of the dependence of Persia on Soviet goodwill. When the embargo was lifted, Persian trade was licensed and subjected to the 'net-balance principle' so as to prevent the recurring unfavourable trade balances for the Soviet Union.

In the following year, 1927, the long-delayed Commercial Treaty,[2] together with a Fisheries and Customs Agreement, was signed provisionally and took

[1] Cf. Grotius, Dr. Wilhelm, *Die Wirtschaftsverträge der Sowjet-Union*, Ost-Welt Verlag, Berlin, p. 9, for text of Treaty.

[2] Cf. *Collected Laws and Decrees of the U.S.S.R.*,* 1928, part ii, pp. 1085–1113.

the somewhat irregular form of a series of notes between the Persian and Soviet Governments. The net-balance principle was retained as the basis of Perso-Soviet trade, annual lists of authorized imports were to be drawn up in Moscow and Teheran, and as a result of the regulations for Persian exports to the U.S.S.R., a new element of barter was introduced into their economic relations. *Persian merchants and firms trading in the U.S.S.R. might only bring back to Persia a sum in currency or notes equivalent to 10 per cent. of the value of the goods originally exported from Persia to the Soviet Union, the remaining 90 per cent. had to be in Russian goods.* Moreover, the Soviet Customs' Authorities would only permit Persian goods to enter the U.S.S.R. on presentation by the Persian exporter of a certificate showing that 90 per cent. of their value in Russian goods had already entered Persia. The Soviet Government undertook to buy Persian goods for an annual value of 250 mil. krans or 50 mil. roubles. Fifty per cent. of these Persian goods might be exported to the Soviet Union by individual Persian firms, though they were obliged in the first place to offer at least 25 per cent. of them to the Soviet State Trading Organs or Co-operatives, and might only deal with another purchaser in the event of being refused by the latter or if a higher price were offered elsewhere. The remaining 50 per cent. of these Persian goods exported to the U.S.S.R. were reserved for the Soviet State Trading Organs.

According to Article 8 of this Treaty, Persian merchants might import any kind of goods from the the U.S.S.R. with the following exceptions:

(1) Petrol and oil products;

(2) Grain;
(3) Manufactured metal goods;
(4) Valuable skins and furs;
(5) Items such as arms and ammunition, the export of which is forbidden over all frontiers of the Soviet Union.

Thus Persian trade with Russia was hedged round by many precautions which eventually caused a great deal of irritation in Persia. Finally in virtue of this Treaty the Soviet Government acquired the important right to purchase land in Persia.

This Treaty was only provisional and actually lapsed in 1929. From the Soviet point of view it achieved its object by reducing the former unfavourable trade balance with Persia, as the following table[1] shows:

	1926–7	*1927–8*	*1928–9*
Persian exports to U.S.S.R.	163·9 mil. krans[2]	199·0 mil. krans[2]	166·2 mil. krans[2]
Persian imports from U.S.S.R.	184·4 ,, ,,	209·1 ,, ,,	291·0 ,, ,,

The system of barter and contingents instituted in 1927 was found very unsatisfactory by Persian merchants. The Soviet trading organizations were in a privileged position to acquire the pick of Soviet

[1] Statistics taken from Kazemi, op. cit., p. 102.

[2] According to the terms of the 1927 Treaty, 50 krans = 1 rouble. I have used the Persian statistics in krans with a view to providing a basis of comparison for the main clauses of the Perso-Soviet Treaty of 1931, the monopoly and contingent stipulations of which are expressed in Persian currency. The kran has greatly depreciated in recent years:

1929/30, conversion rate of kran = $0·0839
1930/31, ,, ,, ,, = $0·076

Cf. *U.S. Commerce Reports*, 11. iv. 1932, p. 124.

manufactures and goods for which there was a constant demand in Persia, i.e. sugar, tea, textiles. The Persians complained that they often had to accept unsaleable or second-quality goods in exchange for their exports to Russia and there was no redress for this hardship in terms of the Commercial Treaty. The prices fixed for the respective contingents were those prevailing on the Persian and Russian home markets. This system also had definite disadvantages for the Persians, whose market is free and competitive while Soviet home prices are strictly controlled and abnormally high.

The Fisheries Agreement regulated the much-disputed question of the future administration of the Caspian Sea Fisheries, famous in pre-War days for their supplies of caviar and sturgeon to Russia. An exclusive concession for the exploitation of the fisheries was granted by the Persian Government in 1867 to a Russian firm, Lianazoff Brothers. After the Revolution the Lianazoff Concession shared the fate of all private property in Russia and the Soviet Government announced that it had taken over all the rights involved in the Lianazoff Concession. The Persian Government at first refused to recognize this arbitrary action, and on their side the Soviet Government ignored the findings of an Arbitration Court which ruled that the Lianazoff claims were still valid. As a result the fishery for several years was practically at a standstill.

In virtue of the 1927 Agreement the Lianazoff claims were finally and quietly laid to rest. A mixed Perso-Russian company with a Persian chairman was established to run the fisheries, and the necessary

capital was to be subscribed equally by the Persian and Soviet Governments. The profits of this mixed company were to be divided equally between the two Governments, but the Persian Government was to receive in addition 80,000 tomans annually and 15 per cent. of the gross profits (minus administration and other expenses) as royalties. The terms of this new concession were therefore much more favourable to the Persians than the old Lianazoff Concession. It was to hold good for a limited period of twenty-five years, after which the Persian Government might dispose of the fishery rights as it chose, on condition that a further period of twenty-five years should elapse before the proposed cancellation of Soviet rights should be enforced. The lack of precise arrangements for the marketing of these Perso-Russian products, caviar, &c., was the real weak spot in the concession. Most of the caviar, for example, is now sold abroad by the Soviet Trading Organs which are supposed to render an account of their stewardship to the company, so that profits may be shared. No attempt has yet been made by the Persian representatives in the company to establish joint selling agencies abroad, though they frequently complain of the results of the present system.

In 1928 the Soviets opened a big offensive to oust the British from their post-War predominance on the Persian textile market. For the first time since the War Soviet goods appeared in the southern provinces of Persia and sailings were renewed between Odessa and the Persian Gulf.[1] Owing to this competition

[1] Cf. Report of Department of Overseas Trade, *Economic Conditions in the Persian Gulf*, April 1929, pp. 8–9.

British sales of cotton goods fell heavily in 1928–9, i.e. from 18,721,000 square yards to 13,575,000, while Russian imports increased over 39 per cent.[1] Soviet sales of metallurgical goods also gained on the British. The fall in the Persian exchange in 1930 fostered the sale of Soviet textiles, as Manchester goods became too expensive for the reduced means of the Persian people. Enormous quantities of Soviet textiles were sent to Persia and prices fell rapidly. Originally the Persian traders were allowed 12–18 months' credit but now 'that the Russians are firmly established on the market, this term has been reduced to 8 months', reported the British Commercial Attaché in Teheran in 1930.[2]

The 1927 Commercial Treaty had expired in 1929, and with its expiration Persian traders lost the right to trade freely in the U.S.S.R. This first phase of free trading relations between Persia and the U.S.S.R. ended in the establishment of a central Soviet organ-

[1] Cf. *U.S. Department of Commerce Reports*, March 7, 1932, pp. 553–5, 'British Production and Exports of Cotton Cloth and Yarn'.

The following analysis of Persian imports of cotton textiles in 1927–8, 1928–9 is given by the British Officer in Charge of Commercial Affairs, at Teheran: *Printed cottons and dyed in the piece*: The Russians increased their exports from 29 per cent. in 1927–8 to 59 per cent. in 1928–9. In the same period British exports fell from 41 per cent. to 26 per cent.

Whites: Russian exports went up 288 per cent. in the first year and only fell 4 per cent. in the second. British exports of these goods fell 20 per cent.

Dyed in the yarn: Russian exports nil in 1926. In 1928–9, 30 per cent. of total Persian imports.

The total Russian imports of cotton goods increased 39·2 per cent. while those from the British Empire (including India) fell 21 per cent. (Cf. *Economic Conditions in Persia*, Department of Overseas Trade, op. cit., 1930, p. 23.)

[2] Ibid., p. 30.

ization for Eastern trade—a characteristic finale. In spite of Persian efforts to conclude another commercial agreement, the Soviet Government played for time. Anarchy reigned in the economic relations of the two countries between whom there was now only the 1928 Customs Convention. The Russian foreign trade monopoly debarred Persian merchants from exploring the Russian market, while the Soviet trading organizations firmly established in Persia were free to exploit their opportunity. The 'Bill for Commercial Reciprocity with Foreigners'[1] introduced to the *Medjlis* by the Persian Minister of Economy in 1930 throws an interesting sidelight on the Perso-Soviet economic situation at this period. In submitting the Bill the Minister said:

> With some countries we have nothing except a customs agreement. It should be noted that the methods to be enforced in commercial relations with those countries with which we have no commercial treaty are not stipulated. On the other hand the conclusion of customs treaties without treaties of commerce does not adequately safeguard our commercial needs. With those countries not having entered into commercial treaties with Persia reciprocity must be applied both with regard to importation and exportation, and the exchange and dispatch of sums received from imports.[2]

Many of the points at issue with the U.S.S.R. were underlined in this Bill. 'This bill was meant to strike at Russia', remarked the Teheran correspondent of the *Temps* (19. vi. 1930).

In the following year (February 1931) Persia intro-

[1] Cf. *Iran de Téhéran*, June 1930.
[2] Cf. *Oriente moderno*, July 1930, p. 309.

duced her own foreign trade monopoly,[1] so as to place the whole import and export trade of the country under government control. A few months later (October 27, 1931) a Commercial Treaty was signed between Moscow and Teheran, being the first concluded with any country since the introduction of the Persian foreign trade monopoly. In certain respects it confirmed the 'Bill for Commercial Reciprocity with Foreigners'. In virtue of this new Treaty Soviet imports were also to be limited by fixed contingents as Persian exports to Russia had already been.[2] Russia was guaranteed a monopoly of the matches, sugar, kerosene, benzene, crude oil, tar, and other oil products imported and large contingents of thirty-three other important commodities imported by Persia (cotton textiles 50 per cent.; cement 72 per cent.; machinery 53 per cent.; soap 50 per cent.; glass 76 per cent.; worked metals 63 per cent.). These seem dangerous concessions to grant to any power even in return for compensations such as Persia neither demanded nor received.

In other points the Treaty is also curious. There are several clauses seeming to promise reciprocity and mutual concessions which on closer examination in the light of the Soviet legislative code and legal-economic practice, offer little real reciprocity to Persia. The 'net-balance' principle is maintained with the following reservation:

It is understood that orders of the Persian Government placed in the Soviet Union for factory equipment,

[1] Cf. *The Times*, Aug. 5, 1931, p. 9.

[2] For list of Soviet goods to be imported into Persia in the course of 1931–2, see Appendix II.

machinery, and spare parts (which are not intended for sale and the acquisition of which would tend to reduce the importation of foreign goods into Persia), and machinery and articles required for the official needs of the Soviet commercial organizations and which are not produced in the desired quality in Persia, after importation into Persia in conformity with the Persian foreign trade monopoly law, will not enter into the net balance account, that is to say will not have to be covered by corresponding exports to the Soviet Union from Persia.[1]

In this case the Soviet commercial organizations without offering any semblance of a *quid pro quo* to Persia, have obtained a margin of at least 6,100,000 rials trade which is exempt from the operation of the 'net-balance' principle. This margin becomes very much larger if the import contingents for sugar and matches (both state monopolies in Persia) are also exempted as 'government orders'.

The following articles[2] of the Treaty awaken considerable misgiving:

Article 1 by which most-favoured-nation terms were granted to nationals of both countries in regard to entry into, or residence in, either country.

Article 2 by which most-favoured-nation terms were granted on a reciprocal basis in regard to the acquisition and possession of property, subject to the domestic legislation of Persia and the U.S.S.R. on this matter.

Article 4 by which the right was granted to the nationals of the two high contracting parties, to practise any trade,

[1] Extract from French text of Treaty kindly lent me by a member of the Persian Delegation to the League of Nations before the publication of the Treaty.

[2] Translated from above-mentioned French text of Perso-Soviet Treaty.

industry, or commerce on a basis of equality with the nationals of the country concerned, unless this right is forbidden by domestic legislation in the case of all foreigners.

Article 10 by which in the event of the Persian import contingents being increased, the high contracting parties agree that the U.S.S.R. will receive for the duration of this convention a proportion equal to its share in the import of these commodities before the increase took place. In the case of goods not actually found on the list of contingents for importation into Persia and eventually placed on the list of authorized contingents, the U.S.S.R. will be granted a share in these contingents, proportional to its share in these imports before the monopoly was instituted.

The difficulties in the way of foreigners residing permanently in the Soviet Union, and the practical impossibility of their either acquiring or disposing of property there, in addition to the very ambiguous nature of Soviet nationals' rights to engage in industry or commerce in their own country under the Soviet code, are too well known for further comment on this ingenious example of Soviet verbal equivocation.

The Soviets have availed themselves of these treaty rights in Persia and among other things started a textile factory in the neighbourhood of Aliabad in 1931.[1] If Persian capital were available for a similar venture in Russia, it would be naïve to suppose that under present conditions, treaty rights or not, it could ever materialize successfully.

Since this Treaty was concluded economic relations with the U.S.S.R. have been in a constant state

[1] Cf. *Le Messager de Téhéran*, Sept. 30, 1931.

of flux. Throughout 1932 the outcry against the methods employed by the Soviet trading organs in northern Persia grew more and more intense and culminated at the end of the year in deputations to the Teheran Chamber of Commerce and the Government urging the abrogation of the 1931 Commercial Treaty with the U.S.S.R.[1] Sharp practices very detrimental to Persian interests were alleged against these Soviet organizations and their whole commercial technique was bitterly criticized. The chief allegations were:

(1) The Soviet trading organs hold commodities until prices rise very high and the market is empty. Then when Persian merchants have contracted for other supplies abroad, they unload, make their own prices, and ruin the Persians who have already placed orders in other countries.

(2) Persian merchants are obliged to pay cash for Russian goods while the Soviet trading organs only purchase in Persia on a system of long credit and in spite of this frequently invent new reasons for deferring or reducing payment.

(3) In spite of the transit facilities promised by the Soviet Government to Persia, difficulties are constantly put in the way of Persian merchants wishing to import goods from other countries through Russia and they are thus forced to buy more Russian goods.

(4) The prices of goods imported by the Soviet

[1] Since the manuscript was sent to the printers the Chamber of Commerce of Teheran passed a resolution urging that no individual Persian merchants should trade with the U.S.S.R. until an arrangement could be made, under the auspices of the Persian Government, to centralize Persian trade with that country. Cf. *Iran de Téhéran*, Feb. 3–10, 1933.

trading organs exceed in many cases the rates stipulated in the Commercial Treaty.

The situation is thus bristling with difficulties. No action has yet been taken by the Persian Government, and it is by no means certain that a hasty cancellation of the Commercial Treaty with the U.S.S.R. would improve matters for Persia.

Statistics for 1931–2[1] show a sharp decline in Soviet exports to Persia. Persian exports to the Soviet Union were not affected in the same way and actually rose in value, a fact ignored in the popular outcry against Soviet trade.

	1930	*1931*	*1932*
	In thousands of roubles		
Soviet exports to Persia	60,284	32,476	25,368
Soviet imports from Persia	44,392	46,453	49,940

Persia now absorbs 17 per cent. of the entire foreign trade of the Soviet Union. As an importer of Soviet goods she for the first time ceded first place to Mongolia in 1931, though she still exports more goods to the U.S.S.R. than any other Eastern country. There are many indications that Persia will endeavour to reduce still further the large imports of goods like Russian textiles, sugar, or matches, which compete with the home-made products and are said to ruin conditions of employment for Persian workers.

The success of the plans initiated by the Persian Government to develop native sugar, match, and textile industries (three of the largest items imported from Russia) depends to a great extent on the loyal co-operation of Russia. The moment has come in

[1] Cf. *Foreign Trade*,* 1931–2.

the history of Perso-Soviet economic relations when that co-operation originally promised by the Soviet Union to Eastern peoples is indispensable to Persia's development and prosperity. From this point of view the Persian economic situation may be regarded as a touchstone of Soviet sincerity, in so far as the progress of Eastern peoples is concerned. The match factory started near Tabriz some years ago had to close according to Persian sources[1] of information because of unfair Soviet competition, the Soviets being accused of selling matches at lower prices in Persia than at home and raising the price as soon as the Persian factory had shut down. Another version of this story is provided by the Soviet Commercial Delegation in Paris: 'Ainsi que l'U.S.S.R. a contribu à la creation en Perse de fabriques d'allumettes, actuellement sous la pression de la concurrence étrangère, ses fabriques sont obligées de fermer leurs portes.'[2] Whichever story is true is perhaps less important than the fact that the factory has now opened again.

The largest item in Persian imports has always been cotton textiles the great bulk of which are imported from the U.S.S.R. The Shah[3] and the present Persian Government attach great importance to reducing

[1] Cf. *Iran de Téhéran*, 2. vii. 1931; Kazemi, op. cit., p. 183.

[2] Cf. *La Vie économique des Soviets*, Feb. 1931, No. 131, p. 13.

[3] Cf. *New York Times*, Nov. 23, 1930, report of interview with the Shah of Persia: 'As for industry I am anxious to develop it in every possible way. I think of developing and perfecting the cotton industry in all its aspects, from the moment in which the product leaves the plantations of Azerbaidjan, till it is converted into textiles which we shall all adopt for our clothes. If you return next year, you will find me at the head of the most important factory in the country, because I am determined to increase our production until it suffices for the needs of the nation.'

this item of foreign expenditure and creating a home industry with Persia's raw material. In 1929 Persia spent over 200,000,000 krans on textiles, while her exports of cotton only amounted to a value of 52,000,000 krans, practically all of which went to Russia. Thus Persia pays more than four times as much for cotton goods as she receives for her raw material. Several new textile mills were established near Teheran during 1931 and it is interesting to note that imports of Soviet cotton textiles fell from 21,259,000 roubles in 1930 to 10,496,000 roubles in 1931 and down to 8,600,000 roubles in 1932.[1]

There is also another side to this question. The Soviet cotton plantations in Tadjikstan and Uzbekistan are growing very rapidly. According to the planned economy of the Soviet Union self-sufficiency in cotton is a definite future objective. If Persia does not succeed in building up her own textile industry, she may soon find that the U.S.S.R. has ceased to need her raw cotton, while continuing to pour cheap manufactured goods over the frontier. In the summer of 1931 the Soviet transport authorities refused for the first time to accept raw cotton or silk cocoons from Persia in transit through Russia.[2] This measure shows the way the wind is blowing.

Persia's economic future and in particular her ability to shake off Russian economic control is closely bound up with the successful completion of the new Trans-Persian railway, with a possible branch line to the west through Kermanshah, joining up with the Iraqi railways. As things are, the pro-

[1] Cf. *Foreign Trade*,* Dec. 1931, p. 42. Ibid., 1932.
[2] Cf. *Le Messager de Téhéran*, June 18, 1931.

ducts of the rich agricultural provinces of Northern Persia have no other outlet than the Caspian Sea and Russia. They are virtually in Russia's hands, because there is no alternative market. A special tax on tea and sugar has been ear-marked for railway construction by the Persian Government since 1925, as the best means of changing this situation.[1] When the railway runs as planned, from Masanderan through Teheran to the new Persian port of Bandar Shahpur on the Persian Gulf, things should materially change in Persia's favour. Construction is proceeding simultaneously on the northern and southern extremities of this line. In the north trains are now running between Bandar Shah and Aliabad, and in the south between Bandar Shahpur and Dizful.

It is also hoped that the new Rowanduz Road[2] across the Iraqi frontier to Mosul will eventually open the Mediterranean ports of Beirut and Alexandretta and the facilities of the Iraqi and Turkish railway systems to Northern Persian trade and thus provide an alternative to the precarious Soviet market. Since Russia placed an embargo on raisins and other dried fruits as 'unnecessary luxuries', the Nestorian villages whose chief means of livelihood has always been the cultivation and export to Russia of fruits have been reduced to the greatest misery. The Persian section of the road was completed with considerable enthusiasm in 1931, and the Iraqi section in the following year. By this road Tabriz will be brought within a week's journey from Paris, when it is completed as planned up to

[1] Cf. Khan Kazemi, op. cit., p. 225.

[2] Cf. *Oriente moderno*, June 1930, p. 264. *Guide Book on Persia.* Teheran 1931. *Journal of the Central Asian Society*, April 1933, p. 190.

the Turkish railhead at Nissibin. These new means of communication are all very well in their way, but they undoubtedly owe nine-tenths of their interest, from the Persian point of view, to the strained economic relations actually existing with Russia.[1] The plain fact is that Russia and not Europe or America or any other outlet is Persia's natural and most convenient market under normal trading conditions.

If Soviet Russia has repudiated her former rulers and their actions, so it should be remembered has Persia. Under the present Government she is trying to bring the country into line with progressive economic and social institutions. And like Russia she is prepared to disown the past, should it be found to be an insuperable barrier to her future progress. As a symbol of resuscitation, the attitude adopted by this still very primitive and weak country toward Great Britain in the conflict over the original Anglo-Persian Oil Concession—whatever the rights and wrongs of the case—is significant. The summary action recently taken by Persia towards a number of her subjects convicted of spying for the U.S.S.R.[2] should also be a warning to that big neighbour that a new spirit is stirring in Persia. It would be better policy for the Soviet Government in the long run to moderate the economic pressure it is now in its power to exercise on Persia, in the hope of retaining her favour at that perhaps not distant date when she may be in a stronger position for making her own terms.

[1] Owing to Persia's inability to finance these costly schemes and their lack of contact with international lines of communication, they have little practical importance.

[2] Cf. *The Times*, Jan. 9, 1933.

CHAPTER IV

SOVIET ECONOMIC RELATIONS WITH AFGHANISTAN

The pre-War situation

BEFORE the War Russian trade with Afghanistan was relatively small and handicapped by many political factors. Any attempt to develop it south of the Hindu Kush line was jealously circumvented by Great Britain who had the lion's share of most of the manufactured goods imported into the country.[1]

Imports to Afghanistan 1914

From British India	£1,300,000
Russia	£700,000

Since the Treaty of Gandamak, signed in 1879,[2] Great Britain was also the channel through which all political relations between Afghanistan and other powers had to be conducted. Russia had accepted this situation by the Treaty of St. Petersburg in 1907 and agreed to the clause excluding Russian agents from Afghanistan. The effect of this semi-political, semi-economic pressure from British India is reflected

[1] Cf. 'Die Auslandswirtschaft' in *Die Industrie und Handelszeitung*, Berlin, June 5, 1927.

[2] Cf. Article 3 of the Treaty of Gandamak: 'Afghanistan must allow her foreign interests to be represented by England and may not conclude any treaties with other states without England's consent. England will on the other hand support the Emir in any authorized wars with troops, arms, and money.' Extract from text of Treaty reproduced in C. Dahl, 'Die Rolle Afghanistans in der Weltpolitik', *Die Zeitschrift fur Politik*, No. 46, 1926, p. 445.

in the following statistics[1] for Russo-Afghan trade in 1913:

Russian exports[2] *to Afghanistan*	*% of total Russian exports*	*Russian imports from Afghanistan*	*% of total Russian imports*
	In thousands of roubles		
5·946	0·4	6·299	0·5

The most popular Russian exports at this time were textiles, sugar, glass, and galvanized household utensils.

On the eve of the Great War there were definite indications that Russia was chafing under her forced exclusion from the Afghan market and was determined to find some means of placing her trade on a firmer footing across the Afghan frontier. 'Every year it is more obvious how unfortunate this isolation policy in Afghanistan is for us', wrote the Russian Minister of Foreign Affairs, Sasonow, in a confidential memorandum in 1914.[3] 'Lack of organized direct relations also reacts unfavourably on our trade which finds serious difficulties in the Afghan market. If we succeeded in establishing something like regular official relations between our frontier authorities and the Afghan Government at Herat, Mazar-i-Sharīf, Andkhui and Maimena, our trade would undoubtedly develop with a bound, as all conditions are favourable in Afghanistan for developing a splendid market.'[4]

During the War economic relations practically ceased between Russia and Afghanistan. The Czarist

[1] Statistics from *Soviet Union Year Book*, 1925, pp. 215, 216.

[2] Eighty-six per cent. of these exports were textiles, 6 per cent. sugar, 2 per cent. glass-ware. Cf. Platzmann, Afghanistan, *Wirtschaftsdienst*, Heft 47, Nov. 26, 1926, p. 1643.

[3] Cf. *Die internationalen Beziehungen*, op. cit., vol. i, No. 384, p. 381.

[4] Ibid., op. cit., No. 3, p. 381.

régime fell before the way was opened for pushing forward its economic plans in Afghanistan.

The Bolsheviks and Afghanistan

The fact that Afghanistan regained her political independence and the right to conduct her own foreign affairs from Great Britain in 1919 facilitated and accelerated the course of Bolshevik activities in Afghanistan. Moreover, economic relations between the Soviet Government and Afghanistan have been so consistently coloured by political considerations (and in particular by the proximity of British India) that it is nearly impossible to disentangle the skein without throwing the economic factor into false perspective.

The Afghans were not forgotten by the Soviets in all their Eastern congresses and manifestoes. They were explicitly mentioned by name among the 'downtrodden peoples' whom Soviet Russia undertook to emancipate from Western, and in particular British, imperialism. Their sovereign, Amanullah, was welcomed officially in Moscow, though Moscow in principle abjures all kings. For the moment the despotic government and feudal servitudes of Afghanistan were conveniently forgotten by the communists in their efforts to win a new satellite and a strategic position *vis-à-vis* Great Britain.

The Soviet Afghan Treaty of Friendship and Alliance[1] was signed in 1921. It was primarily a political treaty and only indirectly referred to economic matters which were to be regulated by a later commercial agreement.[2] Article 6 allowed the free transit

[1] For text cf. Freund, *Russlands Friedens- und Handelsvertrage*, 1918–23, Leipzig, Teubner, 1924, p. 18.

[2] In this connexion the following passage in a letter from Lenin to Amanullah is not without interest: 'The Workers' and Peasants'

of all goods destined for Afghanistan, through Russia, *whether bought in Russia or not* (though Afghanistan did not offer reciprocity of transit rights to Russia[1]). This was an obvious attempt to get even with England who two months previously, in virtue of the Anglo-Afghan Treaty, had opened the Indian frontier to goods-in-transit from Afghanistan. At a later stage the question of 'goods-in-transit' became a stumbling-block in the negotiations for a commercial treaty between the two countries and no formal agreement has yet been concluded between them.[2] Russia obtained the right to open five consulates in Afghanistan[3]

Government of Russia instructs its Embassy in Afghanistan to engage in discussions with the Government of the Afghan people with a view to the conclusion of trade and other friendly agreements for the purpose of fostering good neighbourly relations in the best interests of both nations, and of assisting Afghanistan in the joint struggle against the most rapacious imperialistic government on earth, Great Britain, the intrigues of whom, as you correctly point out in your letter, have hitherto disturbed the peaceful development of the Afghan people' (1921). Reproduced for the first time in Fischer, *The Soviets in World Affairs*, op. cit., p. 286, from the Soviet State Archives.

[1] Cf. Ischboldin, op. cit., p. 137.

[2] Cf. *Le Temps*, 3. viii. 1928, report of interview given by Afghan Minister of Economy to *Bombay Chronicle*: 'The minister declared that an economic agreement will probably be concluded shortly between Afghanistan and Soviet Russia. The outstanding questions include the transit of products destined for Afghanistan through Russia. The Soviets will only permit this in case of certain products, so as to induce Afghans to buy Soviet goods at high prices. The Afghan government is opposed to this policy, especially as Afghans have suffered great losses through depreciation of the Russian rouble.'

[3] The apprehensive attitude of the British Government towards these Soviet agents is expressed in the following clause of the Anglo-Afghan Treaty of 1921: 'In return for commercial facilities (passage of goods imported through India for Afghanistan) the Afghan Government promises to refuse to permit the Soviet Government to open Consulates at Kandahar, Ghazni, and Jalalabad' . . . all points near the Indian frontier.

and agreed to restore the Afghan territory ceded to Russia a century ago. The last clause of the Treaty by which the Soviets promised to give 'gold and material aid' to Afghanistan, in view of the famine-ridden impoverished state of Russia in 1921, must have been more annoying to England than helpful to Afghanistan.

As a result of this Treaty a Soviet Trade Mission was sent to Kabul. The secret instructions[1] issued to it by the Soviet Government indicate the mixed nature of their future activities:

> The trade relations must in all cases serve the interests of Communist propaganda. The watchwords should be: 'Agitation among soldiers. Down with Whites and officers. Organization of communist cells which should eventually be affiliated to the Communist Party. All means of production for the workers. Down with middle-men and speculators. *Buy up the press.*' Signed: Bucharin. Beresin. For the Executive Committee of the III International.

Soviet-Afghan economic relations

On this new basis of Friendship and Alliance what were the prospects of Soviet-Afghan trade? The situation in Afghanistan was quite different from that across the Perso-Soviet frontier. Persia is dependent upon the vicissitudes of the Russian market and has always bought large supplies of Russian manufactured goods. Afghanistan can afford to ignore the Russian market and still dispose of her raw materials (wool, cotton, and hides) profitably at home or in India, while her limited industrial requirements (chiefly cotton piece goods, sugar, manufactured

[1] Quoted in Hurwitz, *Die internationale Politik der III Internationale*, Berlin, 1922 (Appendix II, p. 112).

metal goods, motor-cars) can be very satisfactorily supplied from British India. On their side the Soviets were deeply interested in developing the Afghan market for manufactured goods and in obtaining Afghan live-stock, wool and cotton (especially during the period before the initiation of the Five-Year Plan).

Soviet-Afghan economic relations were in the first place handicapped by factors such as the firmly established trade between Afghanistan and British India; the difficulty of communications between northern Afghanistan and the centre and south of the country; the presence in Afghanistan of the deposed Emir of Bokhara whose former Turkestan possessions had been summarily incorporated in the Soviet Union; the fact that Afghan and Turkoman Moslems are being gradually deprived of all religious, economic, and educational rights in Soviet Turkestan,[1] and that therefore in view of these discriminatory measures against Moslems in the U.S.S.R. the Soviet agents are in a delicate position in Afghanistan. The state religion of Afghanistan is Mohammedanism,[2] and even in purely economic transactions they have to proceed warily in order not to excite the smouldering religious prejudices of the mullahs and people.

Any exact estimation of the growth of trade in Afghanistan is extremely difficult. No official statistics even of the population exist, and banks are forbidden on religious grounds.[3] The country is very primitive

[1] Cf. report of Moslem Congress, Jerusalem (Dec. 31), in *Oriente moderno*, March 1932, pp. 131–7.

[2] Reaffirmed in New Constitution. Cf. *Oriente moderno*, op. cit., June 1931, p. 267.

[3] In practice, however, Afghan state subsidies known as *Taqawi* and *Tortak* for the promotion of trade and industry, may be regarded

and the population is practically self-supporting. The only available estimate of Afghan foreign trade is tentative and amounts to 60 mil. Afghan rupees.[1]

Analysis of Soviet-Afghan trade 1921–31

The Soviets have been consistently indulgent towards the Afghan import and export trade. Neither has yet been subjected to the 'licence' system, the 'net-balance' principle, nor any of the usual restrictions under the foreign trade monopoly. In 1925 all duties on exports to Afghanistan were removed and in the 1924 differential tariff for Asiatic countries, Afghan imports were taxed at minimum rates—if at all. Though the Soviet import tax on wool (the largest item in Afghan exports to the U.S.S.R.) was removed in the case of Afghanistan, the Afghan Government could not be persuaded to abolish the export tax on wool on its side of the frontier and

to a certain extent as fulfilling the same functions in Afghanistan as banks in other countries. In this connexion it is interesting to recall that the present Shah before seizing the throne was Afghan Minister in Paris, where he established active relations with American and European bankers. His desire to introduce modern banking machinery into Afghanistan without prejudice to the present laws and customs of his country resulted in the formation under his auspices of 'Sharkat-i-Ashami'. This institution for facilitating Afghan commerce and handling Afghan exchange and banking business is subsidized by the Afghan Government and has offices in several foreign cities including London, but is not officially designated as a bank.

[1] According to information supplied by the Afghan Trade Agency in London, the total foreign trade of Afghanistan amounts approximately to 60 mil. Afghan rupees per annum. The chief items are roughly:

Persian lamb skins	30	mil. rupees	(Afghan)
Sheep	15	,,	,,
Kishmish	3	,,	,,
Fresh fruit	2	,,	,,
Carpets and rugs	1½	,,	,,
Pistachio	1	,,	,,
Cotton and wool	½	,,	,,

the duties are still paid.[1] Moreover no exemptions in favour of Soviet goods appear in the Afghan Customs Tariff.[2]

From negligible proportions in 1921, Soviet-Afghan trade has gradually increased in volume and value since 1925. The following table shows the position for the last seven years:

	1925–6[3]	*1926–7*[3]	*1927–8*[4]	*1928–9*[5]
	In thousands of roubles			
Soviet exports to Afghanistan	2,541	3,422	6,849	7,007
% of total Soviet exports	0·4%	0·4%	0·9%	0·8%
Soviet imports from Afghanistan	3,271	4,160	6,698	11,718
% of total Soviet imports	0·4%	0·6%	0·7%	1·4%

	1929–30[5]	*1930*[6]	*1931*[6]	*1932*[6]
	In thousands of roubles			
Soviet exports to Afghanistan	7,308	7,850	11,523	14,574
% of total Soviet exports	0·7%	0·75%	1·71%	2·5
Soviet imports from Afghanistan	10,332	9,268	11,615	11,782
% of total Soviet imports	1·4%	0·9%	1·26%	1·9

[1] Boris Ischboldin, op. cit., p. 132.

[2] For tariff cf. *Le Moniteur officiel du commerce et de l'industrie*, No. 485, 1932. Most Soviet imports to Afghanistan pay 20 per cent. duty. Arms, ammunition, and religious works are admitted free.

[3] Cf. *Soviet Union Year Books*, 1929, p. 226; Ibid., 1930, p. 306.

[4] *Memorandum on Inter. Trade, League of Nations*, vol. 3, Geneva, 1930, p. 258.

[5] *Inter. Trade Statistics, League of Nations*, 1932, p. 259.

[6] *Foreign Trade*,* 1931–2.

These figures show a steady increase in Soviet-Afghan trade, both as regards imports and exports. Although they represent a small fraction of Soviet foreign trade it must be remembered that the entire foreign trade of Afghanistan is small. An important feature of the situation was the unbroken succession of unfavourable trade balances for Russia, until 1931 when the imports and exports almost balanced, and 1932 when for the first time the balance was in her favour.

It would be interesting to compare this situation with the position of Afghan-Anglo-Indian trade. Unfortunately the Government of India Statistical Department ceased[1] to publish statistics of foreign trade over the land frontier (in which category Afghanistan falls) in 1925. The following table shows the position in 1924–5, the last year for which these statistics appeared:

Afghanistan

Imports from British India. . .	£1,600,000
Imports from Russia . . .	£1,500,000
as compared with 1914:	
Imports from British India. . .	£1,300,000
Imports from Russia . . .	£700,000

This comparison cannot therefore be pursued up to date, until either Afghan statistics are organized more regularly or the Government of India decides to re-publish its statistics for trade over the land frontier. In spite of the lack of statistics there can be no doubt that Soviet exports have increased very greatly, both

[1] Cf. *Statistical Abstract for British India*, Calcutta, March 1932.

absolutely and in relation to British exports to Afghanistan, since 1925.

An examination of the list of articles exported by the U.S.S.R. to Afghanistan discloses a curious medley of commodities which grows longer and more varied every year. In 1931–2 these exports included toys, rubber goods of various kinds, electric fittings, confectionery and biscuits, macaroni, perfumery, pharmaceutical chemicals, 'Kustar' handicraft goods, very popular on the Eastern markets, as well as the staple imports of sugar, textiles, oil products, and metallurgical goods.[1] The variety of commodities exported to Afghanistan is only surpassed by the annual surprises prepared for Mongolia. While the range of goods available for the Russian consumer is confined to the mere necessities of existence, Afghan tribesmen are being introduced to hitherto unknown amenities of life by Soviet salesmen. Such are the anomalies of Soviet economic policy!

The large increase in Soviet textiles exported to Afghanistan should be noted. Many new varieties of cotton goods are now found in the Afghan bazaars and the quality of these Soviet goods is much better than a few years ago. The textile industry is one of the few industries which the Afghan Government has endeavoured to start in the country. Already in 1922 a high tariff was put up against Russian cotton goods which aroused great indignation in Moscow. The Russians protested that it was contrary to the terms of the 1921 Treaty and pointed out that English textiles had not been similarly affected. More important than this altercation, however, is the fact that both Soviet

[1] Cf. *Foreign Trade*,* Oct. 1931, p. 34.

and British competition are likely to have a discouraging effect on any attempts to establish native cotton, silk, or woollen textile industries, owing to the variety and cheapness of the goods exported to Afghanistan.[1]

One of the most interesting features of Soviet trade with Afghanistan is connected with the recent development of the Persian lamb industry on the Afghan side of the frontier, of which very little has been heard in other countries in spite of the widespread vogue for Afghan *qua* Persian lamb. When the old Emirate of Bokhara was replaced by the present Soviet régime and the Emir of Bokhara took refuge in Kabul, large numbers of the famous Persian lamb breeders from the former centre of the industry in Bokhara crossed the Afghan frontier and settled on the banks of the Oxus. During the last few years the Soviet Government has done all in its power to obtain control of this fur trade and at the present time about 30–40 per cent. of it is in its hands. In the old days these valuable lamb skins were sold either in Leipzig or London, but for the most part were dressed in Germany. Now the Soviets have established special factories for dyeing and dressing the skins in Russia, and are willing to pay even uneconomic prices so as to concentrate the entire Persian lamb trade in their hands. Owing to the strong competition among the prospective buyers—representatives of British and German firms, Persian

[1] Cf. Bruno Seifert, *Afghanistan*, op. cit., pp. 29–30. The Afghan Government has taken practical steps in recent years to raise the standard of silk culture and production in Afghanistan, by importing silk cocoons from Italy and France.

Jews and the Soviet trading agents—the business is in a flourishing condition; by imposing an export tax on every skin leaving the country Afghanistan is assured of a steady source of revenue from this trade.

The only wireless programmes received in Afghanistan are broadcast from Russia. Here, as in other Eastern countries, the Soviets are developing wireless as a means of commercial advertisement.[1] A large part of the news consists of sensational facts and figures regarding Soviet industrial production, carefully presented so as to arouse the admiration of the Afghans for Soviet technical achievements. Another means of bringing Soviet goods to the notice of the Afghan buyer is by Trade Exhibitions. Some forty-eight Soviet organizations took part in a large exhibition of Soviet goods held in the new Afghan capital, Darel-Aman, in 1928,[2] and afterwards reported that this event helped to bring the southern provinces of Afghanistan into touch with Soviet trade.

In spite of so many evidences of interest in commercial relations with Afghanistan, the chain of Soviet economic agreements which stretches from Turkey to Mongolia is broken at Afghanistan. Negotiations for this oft mooted Soviet-Afghan commercial Treaty have been hanging fire since the first Treaty of Friendship and Alliance was signed with Afghanistan, in 1921. The explanation of the delay may be that the Afghan Government, which is making an honest effort to develop and consolidate a very troublous land, has no desire to give the Soviet trading organizations a firmer footing in Afghanistan until its own

[1] Cf. files of *Le Messager de Téhéran*, 1930–1.

[2] Cf. *VOKS* Information Bulletin, Moscow, 1. ix. 1928.

political and industrial foundations are more securely established. There is a saying in the East that one Afghan trader is worth ten Armenians. In their relations with the Soviets, both economic and political, the Afghans have not fared badly. Afghan traders and tribes have undoubtedly prospered as a result of increased trade with the U.S.S.R. Amanullah was fêted in Moscow in 1929, but departed without committing himself to any orders for Soviet goods. His successor, H. M. Nadir Shah Ghazi, is pursuing an independent policy in regard to the big neighbours Great Britain and Russia which goes far to belie the former conception of his country as a buffer state. The Pact of non-Aggression[1] concluded between Afghanistan and the U.S.S.R. in June 1931 was a pledge to the latter that the present Afghan Government would not be drawn into any anti-Soviet adventures in Turkestan, as long as the Soviets respect the northern Afghan frontier. On the other hand, Afghanistan seems equally loath to participate in anti-British agitation among the Indian frontier tribesmen and to be willing to co-operate with the British in order to keep the peace.

The solution of the difficult communications problem in Afghanistan is most important for the expansion of Soviet trade throughout the country. The Russian-Turkestan railway system touches the northern Afghan frontier at two points, Kushk and Termez. Across the frontier there are no railways and transport of goods is still by caravan along the age-old trade-routes. Afghanistan is traversed from east to west by the great mountain ranges of the Hindu Kush and the Parapamisus which obstruct the natural

[1] For text of this Pact cf. *Oriente moderno*, Sept. 1931, p. 430.

flow of traffic between the northern and southern provinces. Until recently the caravans from the north journeying to Kabul or Peshawar in winter took the circuitous route via Herat, then proceeding along the southern slopes of the Parapamisus to Kabul. The alternate routes from the north to Kabul run across the high passes of the Hindu Kush and are blocked by snow for long periods of the year.[1] Owing to these natural barriers the north of Afghanistan has always been more or less regarded as a Russian trade zone, just as the south was the British zone. The Soviet Government for several years has also been trying to compete in this southern zone. The practical energetic interest taken by the present Afghan Government in improving road communications throughout the country has greatly facilitated this expansion of Soviet trade. The co-operation of Italian and German engineers has been obtained for surveying the country and making the more difficult stretches of mountain road. The new Dara-i-Shikari motor road over the Hindu Kush is nearly complete now and has been carefully planned at a level not affected by the winter snow. North of the Hindu Kush this road links up with another running through Haibak and Mazar-i-Sharīf—the centre of Soviet trade and incidentally of the Persian lamb industry—to the Russian frontier railhead of Termez and is now open to lorry traffic all the year round. It is expected that before the end of 1933 motor lorries will be running regularly between Kabul and Bamiyan on reconstructed roads that were formerly only traversed by caravans. Already Soviet textiles, sugar, glass and crockery, &c.,

[1] Cf. Trinkler, *Afghanistan, eine landeskundliche Studie*, 1928.

are found in large quantities in the bazaars of Jalalabad and other southern towns. Owing to these new means of communication all Soviet goods will probably soon be as common as British in this former British zone, while British-Indian trade should also benefit by the way thus opened up to the northern provinces of the country. Thus the general effect will be to break down both the old Russian and British trading zones in Afghanistan.

The Air Convention signed between the Soviet Government and Afghanistan in 1927,[1] regulating the establishment of an air line between Tashkent and Kabul, was a direct attempt to bring Afghanistan within easy reach of Moscow.

The Convention contains two novel clauses: (*a*) the respective Governments and not two national commercial bodies undertake to establish a regular air-service between Kabul and Tashkent; (*b*) the Soviet Government is guaranteed the right to supply petrol —at Soviet Union prices—for the exploitation of the line. By this means the journey from Moscow to Kabul has been reduced to about four days by air. Although according to the Convention the personnel employed on this line is to be half Afghan, half Soviet, it is asserted that it is almost entirely manned by the Soviets.[2]

Communication between Soviet Turkestan, Afghanistan, and India has also been strengthened by the telegraph lines laid by the Soviet Government between the Soviet Post of Kushk on the Afghan frontier and Kandahar and Kabul.[3]

[1] For text of this Convention cf. Appendix III.

[2] Cf. *Wirtschaftsdienst*, Aug. 20, 1929: 'Mittelasiatische Probleme'.

[3] Cf. Bruno Seifert, *Afghanistan*, op. cit., p. 46.

CHAPTER V

SOVIET ECONOMIC RELATIONS WITH MONGOLIA AND TANA TUVA

THERE is a remarkable consistency in the history of Russian economic penetration in Mongolia. Plans, ideas, tactics, advocated by the Imperial Government before the War have been energetically and successfully taken up by the Soviets in the last ten years. There is even a certain ironic continuity in the forces behind the scenes, for all the appearance of change. In the first place, it was the Imperial Government rather than individual Russian merchants or companies which, in the early twentieth century, was the mainspring of Russian enterprise in Mongolia.[1] At the next stage, the Soviet Government assumed the same directive role in Mongolian trade, and its hand was strengthened by the centralized activities of the Soviet State trading machinery.

The close interplay of economic and political factors is equally characteristic of pre- and post-War Russian policy in Mongolia. In both cases political intrigue has been made a lever for economic control, Russian ambitions have been facilitated by very similar appeals[2] for intervention from the Mongolian leaders in Urga, and Sino-Mongolian antagonism has

[1] Cf. Korostowitz, *Von Genggis Khan zur Sowjetrepublik*, pp. 109–15; *Die internationalen Beziehungen*, op. cit., vol. i, pp. 402–7.

[2] In 1914 the Mongolian Ministry of Foreign Affairs appealed to the Imperial Russian Consulate in Mongolia in the following terms: 'After Mutebunga's army arrived here . . . the soldiers destroyed the images of the gods and brought great misery to the population through murder, fire and robbery. In view of these facts please send brave Russian troops to seize the traitor Mutebunga, to protect the

been fostered by Russia to secure politico-economic advantages in Mongolia.

Pre-War Russian trade

Chinese ports were opened to Russian trade in 1858 by the Treaty of Tientsin.[1] A few years later a new Agreement was signed containing special provisions regarding frontier trade. Merchants of either country carrying on trade along the frontier were exempt from paying duties, but not more than 200 Russian merchants might settle in any one Mongolian town. Goods brought by Russian merchants from China to Mongolia, or vice versa, were subject to the 1862 tariff, and to the internal 'Likin' applicable to all goods-in-transit in China. This Agreement remained the basis of Russo-Mongolian trade until 1909, when the Chinese demanded that its fiscal provisions should be revised. Negotiations dragged on inconclusively until in 1912 the matter was taken out of the Chinese Government's hands, by the establishment of an autonomous government at Urga.

In spite of these favourable conditions Russian trade made little or no progress in Mongolia in the nine-

population and re-establish peace in the land.' Ibid., vol. iv, No. 107, pp. 111–12.

In 1921 the Provisional Revolutionary Mongolian Government wrote as follows to the Soviet Government: 'The people's revolutionary government of Mongolia addresses a request to the Government of the U.S.S.R. not to withdraw the Soviet troops from Mongolia until the complete elimination of the common enemy, who is now seeking reinforcements in the Eastern steppes. This request is necessary because we have not yet completed the organization of the new authority.' Quoted by Pasvolsky, *Russia in the Far East*, New York, 1922, p. 177.

[1] Cf. *Treaties, Conventions &c. between China and Foreign States*, vol. i, Shanghai, 1917. Published by the Statistical Dept. of the Inspectorate General of Customs, 1917. For text of Treaty of Tientsin, see pp. 92–100. For text of Treaty of St. Petersburg, ibid., pp. 168–207.

teenth century and was definitely declining in volume and importance before the War. Russian merchants seem to have been lacking in initiative, disorganized, and their goods were seldom adjusted to the peculiar needs and tastes of the Mongolian people. The Chinese[1] on the other hand (though hated in Mongolia) were closely organized, knew the market thoroughly, and by a combination of ruse and ruthlessness gradually consolidated the best part of the Mongolian export and import trade in their hands, acting either for themselves or as the agents of big British and American firms at the Treaty ports. The only commodity in which the Russians still had the major part of the trade before the War, was sugar.

In 1910–11, the decline in Russian trade was particularly sharp, as the following figures[2] for the three chief Russian exports to Mongolia show:

	1909–10	*1910–11*
Manufactured goods . .	9,922, roubles	2,875,70 roubles
Sugar	6,300, ,,	5,725, ,,
Flour	11,800, ,,	1,265, ,,

The Russo-Japanese War and the losses in Manchuria first directed the Russian Government's attention to the Mongolian resources and market. A great

[1] Hermann Consten, an experienced traveller, summed up the situation well in 1912: 'China schritt zur Kolonisation der Mongolei. Der durchaus tüchtige, chinesische Kaufmann machte mit seinen guten deutschen, englischen und amerikanischen Waren dem russischen Handler mit seinen minderwertigen Lodzer und Moskauer Erzeugnissen, scharfe Konkurrenz, und drückte den russischen Handel schliesslich an die Wand.' H. Consten, *Die Weideplätze der Mongolen*, Berlin, 1920, vol. 1, p. 64.

[2] Cf. Georg Cleinov, *Neu-Sibirien*, p. 116.

deal of activity was shown by the Government in reconnoitring the situation between 1910 and 1914. In 1910, Russian experts were sent to survey the economic possibilities and mineral resources of Mongolia; a trade exhibition and a commercial conference were held in Urga in 1912 and a special commission was dispatched to Mongolia in the same year by the Russian Ministry of Industry and Commerce.[1] The absence of industry in Mongolia explains the interest taken in Mongolian trade by its Russian neighbour. This country, bigger than France and Germany combined, has the distinction of possessing the largest *per capita* wealth in cattle of any country in the world. It is almost entirely devoted to rearing cattle, sheep, and horses. Only 4 per cent. of the total area is cultivated, and even foodstuffs have to be imported. The variety and amount of imported goods used by the Mongols is therefore very great.

In spite of the free-trade régime prevailing between the two countries, transport between western or outer Mongolia and Russia was so costly, that it severely handicapped the Russians in competing with the Chinese. It was only in the immediate pre-War years that the Russian Government developed definite plans for improving transport and for overcoming Chinese competition in Mongolia. These Russian ambitions were facilitated by the Mongolian separatist movement, and by the fact that its leaders (overlooking the alternative danger of Russian domination) were willing to make any concession so as to secure Russian support against China.

Outer Mongolia declared her autonomy in 1912.

[1] Cf. Korostowitz, op. cit., p. 109.

Though still acknowledging Chinese sovereignty, commercial and industrial questions were to be left to the jurisdiction of the new Mongolian Government.[1] Russia immediately recognized the autonomous Mongolian State, and secured free trade for Russian imports. She then hastened to conclude a secret treaty with Japan so as to obtain a free hand for herself in Mongolia (1912).[2] There are many interesting documents in the recently published Czarist archives, which refer to this pre-War Mongolian situation with cynical realism. In 1914 the Russian Foreign Minister declared:

> It could not be to our advantage to reject responsibility for the negotiations of the Mongolian Government. On the contrary, we must accustom the powers to the idea that they should *discuss Mongolian affairs in Petersburg. So far we have succeeded in establishing the silent recognition of our unofficial protectorate over Mongolia.*[3]

According to Korostowitz who, as Russian ambassador to Pekin, visited Urga in 1912, Russia, before the War, started a campaign of active propaganda as a means of securing economic control of Mongolia. Though she had just promised to respect the internal autonomy of Mongolia, she began to organize the Mongolian army[4] and postal services; opened Russian

[1] Cf. *Ostasien und die Weltpolitik*, Dr. Paul Ostwald, Kurt Schroeder Verlag, Bonn, 1928, p. 117.

[2] Text first published by Yakhontoff in *Russia and the Soviet Union in the Far East*, New York, 1931, p. 379.

[3] *Die internationalen Beziehungen*, op. cit. (Documents Nos. 142, 406, 266.)

[4] According to the Arms Agreement concluded between Mongolia and Russia in July 1914, 'The arms are intended for Mongolian troops who will be instructed by Russian and Mongolian officers'

schools in Mongolia; and founded a Russian newspaper.

Russo-Mongolian trade was discussed from all angles at an 'Interministerial Conference on the trade régime to be instituted in Mongolia' held in Moscow in July 1914. Russia felt that she was not reaping the economic fruits of her political adventures in Mongolia. The situation was far from satisfactory. Russia bought about 75 per cent. of Mongolian exports of raw materials: wool, skins, leather, and animal products, whereas the imports from Russia were only a small item in Mongolian foreign trade.[1] The following extracts from the journal of this Conference[2] underline the methods recommended by the Imperial Government to improve Russian trade.

The Conference was finally of the opinion that the success of our commercial activity in Mongolia does not depend on the creation of one or another system of commercial advantages (N.B. in addition to the free-trade which already prevailed on the Mongolian side of the frontier) but on a series of other regulations which would necessitate no discrimination against other governments:

1. The establishment of a bank for Russian merchants in Mongolia;

2. The consolidation of the dispersed Russian commercial activities in Mongolia on a national basis, so as to fight competition;

(cf. *Die internationalen Beziehungen*, op. cit., vol. iv, No. 265, p. 249). 'Russia is arming the Mongolians to save her trade', declared Hermann Consten as a result of his observations in Mongolia in 1910–12. Cf. *Die Weideplätze der Mongolen*, op. cit., p. 63.

[1] Cf. *Foreign Markets*,* No. 3, 1925.

[2] Cf. *Die internationalen Beziehungen*, op. cit., vol. i, No. 406, p. 402, for Journal of this Conference.

3. The adjustment of Russian goods to Mongolian tastes.

The obscurity of foreigners' rights (i.e. with regard to trade, industry, concessions etc.) which the Ministry of Industry and Commerce would like to put an end to, is in the view of the Minister of Foreign Affairs to be encouraged in so far as it gives us the possibility of strengthening our position without arousing the anger of the powers.

This is the last record of the Russo-Mongolian economic situation left by the old régime in Russia. The Commercial Bank was actually started before the Revolution overthrew the whole system of pre-War Russian trade in Mongolia. In a country trading on a barter basis, this bank was an interesting experiment. In the phase which now opens under the auspices of the Soviet Government, the same problems and aims will be found to reappear. It is interesting to note that the Soviet State trading organs, highly centralized in policy and administration, represent the type of commercial organization envisaged by the former Government experts as the only means of fighting Chinese competition.

Soviet-Mongolian economic relations

From 1917 to 1921, the Soviet Government was at great pains to persuade the Orient of the new political and economic attitude of Russia. In the case of Persia, Turkey, and Afghanistan, for example, the former basis of political relations was completely altered by the Soviet Government without prejudice to the economic and social institutions of these countries. In Mongolia the internal situation lent itself more readily to change, and no time was lost in remoulding the entire social and economic structure of the country under Soviet influence.

In 1921 a Treaty of Friendship[1] was signed between Mongolia and the R.S.F.S.R. guaranteeing:

(*a*) most-favoured-nation treatment for Soviet exports to Mongolia;
(*b*) the right to buy and sell land to Soviet citizens;
(*c*) the cancellation of Mongolian debts to Russia;
(*d*) the restoration to Mongolia of the telegraphic equipment formerly belonging to the Russian Government, with the proviso that the Soviet Government would be willing to concur in any prudent measures which might be taken by the Mongolian Government concerning the organization of its post and telegraph service, and to supply material for this purpose.

'This Treaty', remarked Kotljarewski, a Soviet economist, 'opens up the way for a series of agreements in the field of commerce and communications, which will in turn promote Russian commercial activity in Mongolia. Here our commercial transactions are the obvious basis for our potential political influence . . . trade representatives will be our best diplomatists.[2]

Since the Soviet revolution, Mongolia had been the scene of continuous fighting between the Red Army, the White anti-revolutionary forces, and the Chinese interventionists. No trade was possible under these disturbed conditions. The Red troops were not recalled till 1924 when the Soviets were sufficiently strongly established in Mongolia to make a perfunctory act of faith in Chinese sovereignty over Mongolia.

As a result of political intrigues, on which we need

[1] Cf. Freund, *Russlands Friedens- und Handelsverträge*, pp. 129–32.
[2] Cf. *Novy Vostok* (New East),* July 1922, vol. i, p. 43.

not dwell here, the Peoples' Revolutionary Government and local Soviets were established in Mongolia in 1921. The constitution of the republic, closely modelled on that of the U.S.S.R., was promulgated in 1924.[1] According to the Constitution:

1. All private property was forbidden.
2. All natural resources were declared to belong to the people.
3. A unified economic policy was to be inaugurated under the auspices of the State.

When the Constitution was promulgated it was also declared that the 'foreign trade monopoly will be gradually and according to the degree of possibility introduced in Mongolia'. The intimate connexion between the Independent Peoples' Republic of Mongolia and the Soviet Union is further indicated by the appointment of Kalinin, Tchicherin, and other leading Soviet statesmen as honorary presidents of the first Mongolian Constitutional Assembly. Russian advisers were allotted to many of the new Mongolian ministers, many of whom could neither read nor write. In 1923 an agreement[2] was concluded between the Soviet Government and the Mongolian People's Republic which was to be a powerful lever for promoting Soviet economic aims. According to this Agreement: (*a*) the hereditary rights of nobles to land and property were abolished and in their place a Soviet system was instituted to exploit the country; (*b*) ownerless land should be given to poor Mongols and Russians to work; (*c*) Russian experts should be

[1] For text of Mongolian Constitution, cf. Korostowitz, op. cit., Appendix, p. 344.

[2] Cf. Korostowitz, op. cit., p. 333.

entrusted with the exploitation of the natural resources of the country and the development of industry and trade; (*d*) the mines should be handed over to the Russian co-operatives for joint exploitation with Mongolian workers; (*e*) a Russian representative was permitted to act as a member of the Mongolian Court of Justice with the right of veto where Russians were concerned.

Although the Soviet co-operatives *Centrosoyus* and *Sibkraisoyus* had been operating in Mongolia since 1919, trade was negligible till 1924, when the Soviet company *Sherst*, specializing in wool exports, the *Sibgostorg*, and the *Naphtasyndicate* entered into active business. The *Montzenkop* or Mongolian State Co-operative was established on the lines of the Soviet trading organizations in 1924. Its share in Mongolian foreign trade swiftly increased. In the same year, the Mongol Bank, enjoying a monopoly of external and internal remittances, was founded in partnership with the *Gosbank* in Moscow, which apparently owns about fifty per cent. of its capital.[1] The establishment of the Mongol Bank recalled the old Russian Government's plan for placing Mongolian trade on a monetary basis. The currency introduced by the Bank is a complete innovation in Mongolian economic life. The new unit is a silver coin called a Tugerik, worth 1 Mexican dollar or 90 kopecks and containing 20 grammes of pure silver.[2] Soviet economists make a great to-do about this Mongolian 'monetary reform'. It is extolled as a means of 'emancipating the Mongolian

[1] Cf. *China Year Book*, 1931, p. 31.

[2] Cf. 'Monetary Reform and the National Economy of Mongolia', *Novy Vostok*,* no. 25, p. 145 (1929).

people from the financial credit yoke of Chinese usurers, of regulating the State budget, of developing the country and hastening the transition of the monetary economy to a gold basis'.[1] Under present political conditions it is impossible to obtain any reliable information about the operations of the *Monbank* or the new currency. Nevertheless there can be no doubt that the country has been freed from an intolerable weight of usurious debt payments and extortion, by the exclusion of the Chinese traders from Mongolia and the cancellation of their outstanding claims. From 1926, Soviet commercial transactions became more and more intertwined with the Mongolian state economic machinery. Foreign firms (and in the first place Chinese), hitherto successfully trading in Mongolia, were seriously handicapped from this time by the administrative and fiscal obstacles placed in the way of all private trade by the Mongolian Government.

In 1928 a Mongolian Trade Delegation visited Moscow.[2] Further co-operation with the *Montzenkop* was discussed, and as a result all the Soviet trading organs with the exception of the *Naphtasyndicate* were henceforth grouped in one company, the *Sovmon.*

This policy of co-operation was not long in bearing fruit. Soviet trade developed rapidly, to the detriment of Anglo-American and Chinese firms. In 1918 there were 400 Chinese firms and only 50 Russian established in Mongolia. In 1926–7, 60 Chinese firms failed. In the same year two important English firms, the Product and Export Co. and Wilson & Co., had

[1] Ibid.

[2] Cf. Koutezov, *Foreign Trade of the U.S.S.R.,** Nat. Trade Commissariat Press, Moscow, 1928, p. 146.

to retire,[1] and 80 per cent. of the Mongolian wool trade was in Soviet hands.[2] The Soviet share in the total foreign trade of Mongolia rose from 17 per cent. in 1924 to 29 per cent. in 1926, and the Mongolian exports of wool increased from 18 per cent. in 1924 to 77.7 per cent. in 1926.[3] By 1928 the Soviets had secured a virtual monopoly of the wool export trade. The strongest foreign firms dealing in wool in Mongolia were forced to sell out to the Soviet trading companies, which operated freely while the others were hampered by heavy taxes and oppressive legislation against private capital.

The following analysis of the Soviet-Mongolian economic *rapprochement* which appeared in *Sovyetskaya Aziya*,[4] a Soviet journal, does not mince words in describing the effects on Chinese trade:

In 1924–1925 the share of the U.S.S.R. in the exports of raw materials from Mongolia was 24.7 per cent. and that of China, 69.4 per cent. In 1927–1928 Russia's share had grown to 59 per cent. at the expense of a corresponding reduction of China's former percentage.

In 1924–1925 Mongolian exports of wool to the U.S.S.R. amounted to about 13 per cent. of the total exports and to China to 86 per cent. In 1928–1929 the share of the U.S.S.R. in these exports of wool had grown to 93 per cent. and that of China fallen to 6.5 per cent.

Thus the share of the Soviet Union in the wholesale wool buying business of Mongolia has increased enormously from year to year *at the cost of squeezing China out of the Mongolian market*. There is every reason to believe

[1] Cf. *Foreign Markets*,* 1925, No. 3.

[2] Cf. *Report of Soviet Trade Commissioner*, Feb. 1927.

[3] Cf. Koutezov, *Foreign Trade of the U.S.S.R.*,* Nat. Trade Commissariat Press, Moscow, 1928, p. 146.

[4] Cf. *Sovyetskaya Aziya*,* No. 3–4, 1931, p. 160.

that this success will continue and will soon constitute a monopoly for the Soviet Union in Mongolian wool.

At the present time China sells practically nothing to Mongolia except a small quantity of tea, and the former consignments of Mongolian wool, hides, furs, and skins have in the same way disappeared from Chinese trading centres where they were formerly sold. No statistics of trade between Mongolia and China Proper are regularly published. For the years 1927–9 which marked the rise of Soviet trade and the elimination of Chinese in Mongolia,[1] figures happen to be available in a report written by the Chinese Consul at Chita and are here reproduced for what they are worth:

Mongolian Trade with U.S.S.R. and China Proper

(*Value in 1,000 Tugeriks*)

	Imports from Russia	*Exports to Russia*	*Imports from China Proper*	*Exports to China Proper*
1927	4,000	16,900	27,600	12,080
1928	7,100	21,000	25,400	10,780
1929	2,300	21,500	8,700	6,000

These figures, it should be noted, do not coincide with those appearing in Soviet statistics for the same years, which show an increase in both the Soviet import and export trade with Mongolia in 1928–9. On the long list of Soviet exports to Mongolia, two commodities, grain and oil products, far outstrip all the others in quantity. Both exports have also enormously increased since the War and are annually increasing. Formerly a certain amount of

[1] Cf. *Chinese Economic Journal*, Feb. 1933, p. 152.

Manchurian grain, especially millet, found its way to Mongolia. This has now completely disappeared, leaving the market entirely to Soviet oats, barley, millet, &c. At the same time there has been a marked increase in the consumption of cereals by the Mongolian people. Some idea of the growth in this grain trade can be formed from the following statistics[1] of grain and flour exports from Russia to Mongolia since 1913:

1913	1,800	(tons)
1925–6	3,210	,,
1931	20,012	,,
1932 (Jan.–Nov.) . .	21,571	,,

This represents more than 1,000 per cent. increase.

Soviet oil products have followed the same curve in Mongolia. In 1913 only some 91 tons were imported from Russia while in 1932 the imports amounted to 2,016 tons. Other items on the list of Soviet goods exported to Mongolia are: textiles, sugar, cement, electric appliances, unworked and manufactured metals, prepared foods, tobacco, pharmaceutical chemicals, confectionery, fresh and preserved fruits, macaroni, 'kustar-made' goods, perfumery and soap, films and gramophones, eggs, glass, and crockery. In many cases the quantities are small but they are all steadily increasing. Describing Soviet foreign trade in 1931, the official organ of the Soviet Commercial Delegation in Paris declared that 'Mongolia carried off the palm for the richest import nomenclature of any country importing Soviet goods'.

In 1929–30, Soviet exports to Mongolia increased

[1] Cf. *Der Handel der U.S.S.R. mit dem Osten.* Promisdat Moskow.* Dec. 1931; *Foreign Trade,** 1931–2.

by 65 per cent., while the imports from other countries decreased proportionately. In 1931 (Jan.–Oct.) the trade statistics[1] showed the following striking increases, compared with the same period in the preceding year:

	1930	*1931*
Petrol and oil products	from 495,000 to	1,090,000 roubles
Matches	,, 28,000 ,,	111,000 ,,
Confectionery and sweets	,, 266,000 ,,	901,000 ,,
Cement	,, 19,000 ,,	58,000 ,,
Perfumery	,, 82,000 ,,	147,000 ,,
Phar. chemicals	,, 49,000 ,,	139,000 ,,

The total Soviet exports to Mongolia rose from 17,819,000 roubles in 1930 to 37,343,000 roubles in 1931. Mongolia thus took the place long held by Persia as the largest importer of Soviet goods in the East. In the pre-War period Russia always had an unfavourable balance of trade with Mongolia. The position was changed for the first time in 1929–30, when Russian exports exceeded the imports from Mongolia. This ratio has since been increasingly in favour of the U.S.S.R. The latest figures for 1932 (Jan.–Dec.) show the Soviet exports as amounting to 41,395,000 roubles, compared with imports to the U.S.S.R. from Mongolia amounting to 19,278,000 roubles. The situation was explained with unconscious irony by the Soviet organ just quoted: 'In general compared to last year (1929–30) we notice a falling-off in trade with all Eastern countries. There is one exception, Mongolia, and this exception exactly corresponds with the economic development of this Republic.'[2]

[1] Cf. *Foreign Trade*,* Oct. 1931.

[2] Cf. *La Vie économique des Soviets*, Feb. 1931, No. 131, p. 13.

The following tables[1] show the movement of Russo-Mongolian trade between 1928 and 1932, and the increasing percentage of Mongolian raw materials passing into the U.S.S.R.:

	1928–9	*1930*	*1931*	*1932*
	In thousands of roubles			
Soviet exports to Mongolia	16,400	17,819	37,343	41,395
Soviet imports from Mongolia	15,200	19,745	28,833	19,278

Distribution of Raw Materials sold by Central Co-operative Association of Mongolia.

	In Mongolia %	*Exports to Russia* %	*Exports* via *Russia* %	*Exports to other Countries* %
1924–5	6	25	..	69
1925–6	16	30	..	54
1926–7	7	45	..	48
1927–8	8	60	..	32
1928–9	6	73	18	3
1929–30	9	50	41	..

These statistics leave no doubt as to who is getting the best of this trade. It is more difficult, however, to show the exact proportion it represents in the total trade of Mongolia, since Mongolia no longer figures in Chinese foreign trade reports, and no Mongolian statistics are available. At the Mongolian Affairs Conference[2] at Nanking in 1930, trade

[1] Cf. *Foreign Trade*,* 1930–2; *Chinese Economic Journal*, op. cit., p. 153. (For table of raw materials.)

[2] Cf. *Chinese Year Book*, 1931, p. 30.

and transport problems were discussed, but outer Mongolia does not seem to have been represented. Mongolia is becoming more and more a closed sphere of influence and little information is forthcoming, except from Soviet sources.

In 1927[1] a Soviet writer, D. M. Ilimschi, calculated the *per capita* share of the Mongolian population in foreign trade as 70 roubles, or ten times the Russian average.

'Of all the countries of the Orient', wrote M. Ilimschi, 'we are most immediately concerned with the political awakening of Mongolia. Mongolia is endeavouring to bring her trading economy into line with state capitalism, while avoiding private capitalism. . . . When we find the right contact with the semi-state commercial system developing in Mongolia, the Mongolians will be helped to free themselves from Anglo-American dependence, in order to guarantee us a regular extensive source of raw materials for our industry. It is thus clear that our buyers in Mongolia must beware of all obsolete colonial practices and endeavour to induce the Mongolian organizations to furnish us with raw materials.'

To the Soviets therefore Mongolia serves a twofold object. It is regarded as a convenient laboratory for carrying out an experiment in world revolution and also as a closed preserve for certain raw materials needed by the Soviet Union. The disastrous history of Chinese, British, and American firms in Mongolia during the last five years, a period, after all, of minimum surplus industrial production in the U.S.S.R., can leave no doubt as to the ultimate prospects of foreign trade in Mongolia. Soviet economic

[1] Cf. *Ekonomicheskaya Zhizn*,* July 26, 1927.

penetration in Mongolia is a good demonstration of the international economic reactions of active world revolution. On an equal basis of competition, the Soviets could never have dislodged the well-established Chinese trade as they have actually succeeded in doing in a very short time. By a political *tour de force* transforming the Mongolian Constitution and economic machinery into an instrument for their own ends they have disposed of their most dangerous competitors the Chinese and of rival purchasers for Mongolian wool and furs like the British and Americans, all of whom are now legally disqualified 'as private traders' from engaging in trade. This leaves the coast clear for the Soviet trading organs and temporarily at all events solves the problem of foreign competition. Under the circumstances it is difficult to understand the interpretation of Soviet economic tactics given by a former Russian diplomat, Victor Yakhontoff, who writes: 'One thing is quite sure, the New Russia will not employ force to acquire markets in China, or elsewhere, because her new régime professes disbelief in such methods of economic expansion.'[1]

Communications between the U.S.S.R. and Mongolia

The question of transport is extremely important for the development of Soviet trade in Mongolia and occupies a prominent place in Soviet literature dealing with Mongolia and the neighbouring territories of Tana Tuva and Siberia.[2] The caravan has always been employed for conveying goods throughout the

[1] Cf. *Russia and the Soviet Union in the Far East*, op. cit., pp. 228, 347.

[2] Cf. *Sovyetskaya Aziya*,* 1930–1; *Novy Vostok*,* 1928; *Transport and Economy*,* 1927, which in the years cited have many articles on this subject.

country, though the tracks[1] leading over the Russian frontier, from Biisk to Kobdo, for example, were formerly so precarious that even pack transport frequently could not be used there. The first motor road was built by Americans from Urga to Kalgan in 1917. Now, according to travellers, automobiles often traverse Mongolia, though little can yet be said for Mongolian roads. Plans for the construction of a railway between Verchne-Udinsk, Kiachta, and Urga were seriously considered by the Imperial Russian Government. The following clause of the Russo-Mongolian Loan Agreement (July 1914)[2] shows how the ground was being prepared for this purpose:

> The Mongolian Government which has the right to build railways within its own territory by reason of its amicable relations with the big Russian Empire its neighbour, will approach the latter before building railways at its own cost, or by granting a concession, and will thus ascertain whether the proposed lines would interfere with the economic and strategic interests of Russia.

The question of Mongolian railways is often discussed in the Soviet press. The lines projected have a more directly economic purpose than those planned before the War. Preference is now given to a line running from Biisk, the terminus of a branch line of the Trans-Siberian railway, through Kosch-Agasch, Kobdo, Uliyasutai to Urga or Kalgan parallel to the Trans-Siberian Railway and embracing the very inaccessible part of western Mongolia actually

[1] For detailed description of these tracks, cf. Cleinov, op. cit., pp. 362–77.

[2] Cf. *Die internationalen Beziehungen*, op. cit., No. 266, p. 249.

connected with the U.S.S.R. by the Tschuisk Track from Biisk. By this means the coal and iron of the Kusnetz Basin and eventually Siberian textiles and other industrial goods (if successfully produced as per plan) could be exported much more easily to Mongolia. In 1926 a Soviet Mongolian Railway Agreement was signed with a view to linking Mongolia with the Trans-Siberian System. Up to the present, lack of capital has prevented the Soviet Government constructing any such Trans-Asiatic railway. As a project for the future, however, it is interesting. It is also proposed to include Mongolia in the Soviet Air System. A first step in this direction has been taken with the line between the Siberian port of Irkutsk and Ulan-Bator (Urga).

Owing to the lack of railways, motor lorries are now a common means of transport in Mongolia. Soviet petrol and other oil products are universally used and benefit by the heavy taxes imposed on 'foreign oil', the rapidly increasing lorry traffic, and the fact that motor transport is virtually a State monopoly in Mongolia. According to an interesting account of transport in Mongolia published some time ago by the Agent of General Motors who travelled all over the country on business in 1930–31: 'Between 1927 and 1928 the Soviet Government took complete charge of motor transport in Mongolia. All literature dealing with motors must now be in Russian, because it is the only language intelligible to those having control of purchases.'[1]

Mongolia is connected by two vast river systems, the Yenissei and the Selenga, with Siberia; and

[1] Cf. *China Weekly Review*, Feb. 7, 1931.

river transport plays an essential part in Soviet planning for the promotion of Siberian-Mongolian trade. Active steps have been taken to develop the Selenga river system with its tributaries the Orkhon and the Tula, formerly only partially explored or navigable. A branch line of the Trans-Siberian railway runs down to the northern Mongolian frontier town of Maitmatshin and stops abruptly there. The Selenga and its tributaries continue their courses southwards across this frontier, linking up otherwise inaccessible country to trade.

'The chief aim in developing the Selenga Steamship Service', wrote a Soviet economist[1] in 1927, 'was the promotion of trade and commerce with Mongolia and the simultaneous struggle for predominance on the Mongolian markets. It may be assumed that the Transport Commissariats will be enabled by means of cheap freights and the prompt delivery of goods to put an end to the export of Mongolian raw materials to Europe over Kalgan. This would doubtless result in very much larger trade on the Selenga. Under the actual circumstances the Transport Commissariat attributed special importance to pleasing foreign firms. For this reason, a separate transport office has been organized in Urga for the purpose of forwarding goods on the Selenga and its tributaries and thence to all steamers, railway-stations and ports abroad. There can be no doubt that by grouping all tributaries of the Selenga through the Transport Commissariat, the largest part of the goods dispatched from Mongolia to the U.S.S.R. and also to other destinations would take this cheap and fast route.

This article was written in 1927. It is extremely

[1] Cf. *Transport and Economy*,* op. cit., p. 117. Quoted by Cleinov, op. cit.

unlikely, as things have since developed in Mongolia, that the Soviets now anticipate any international freight on this waterway.

Soviet trade with Tana Tuva

Tana Tuva is a small sparsely inhabited undeveloped country about the size of Belgium situated between the north-west corner of Outer Mongolia and Siberia. The native population of some 70,000 people is almost entirely pastoral, rearing large herds of sheep and cattle. About 12,000 Russian colonists and some Chinese are also settled in Tana Tuva.[1] The same policy of economic and political domination has been followed by the Soviet Government in the Republic of Tana Tuva, the former Chinese colony of Uriankhai, as in Mongolia. Tana Tuva is silent with regard to all these developments and as there are no foreigners or non-Soviet traders in the country, information save of a casual nature or from Soviet sources is difficult to obtain.

The attitude adopted by Soviet economic legislation to Tana Tuva has been described in an earlier part of this work. It will be remembered that the foreign trade monopoly has never been enforced on the Soviet–Tuvinsk frontier. Tuvinsk exports pass into the Soviet Union with little more formality than as if the frontier did not exist, and indeed in the sphere of practical politics it is little more than a fiction. The total volume of trade either foreign or domestic in Tana Tuva is small but it is entirely monopolized by the Soviet trading organs. Judging from the many references to Tana Tuva in the bulletins of the Siberian Co-operatives and the reports of the Soviet trading agents in Mongolia and Tana Tuva,

[1] Cf. *Novy Vostok*,* April 1930; *Ekonomicheskaya Zhizn*,* May 24, 1930.

a considerable expansion of Soviet trade is anticipated in the future. Soviet trading agents, here as in western China, regard themselves as the pioneers of progress and thus capable of stimulating new needs and tastes among the people. At the present time, textiles, oil products, sugar, and metals are far the largest Soviet exports in bulk and value.

Chief Soviet Exports to Tana Tuva[1]

In thousands of roubles

Textiles	*1928–9*		*1931*		*1932 (Jan.–Dec.)*	
	Tons	*Roubles*	*Tons*	*Roubles*	*Tons*	*Roubles*
Textiles . .	201	696	188	698	404	1,395
Metals and scrap .	230	86	485	361	805	428
Sugar . . .	152	721	257	3	468	215
Oil products .	154	44	197	39	405	71

In recent years Tana Tuva has done a good trade in horses and live stock with the Soviet Union, owing to the ravages in Russian agricultural resources. Both the import and export trade with the U.S.S.R. is rapidly increasing.

Soviet Trade with Tana Tuva[2]

In thousands of roubles

	1927–9	*1928–9*	*1931*	*1932*
Exports . . .	1,375	2,333	2,652	4,388
Imports . . .	1,308	1,090	895	2,191

Being the home of the upper reaches of the Yenissei, Tana Tuva, wedged between Siberia and Mongolia,

[1] Cf. *Soviet Union Year Book*, 1930; *Foreign Trade*,* Dec. 1932.
[2] Cf. Ibid.

is regarded by the Soviet Government as an important basis of communication between Mongolia, Siberia, and the sea.[1] From this point of view it must also assume increasing importance corresponding to the industrial expansion and exports of Siberia.

In itself, Tana Tuva possesses special advantages of soil and climate for very much larger agricultural development and is reported to have rich mineral resources. No doubt under Soviet auspices both agriculture and mining will proceed apace in the future. Undisturbed by any interested rivals, the U.S.S.R. stands to gain considerably by these developments.

[1] Cf. *Sovyetskaya Aziya*,* Nos. 3–4, 1931: 'The Upper Yenissei as a Trade Route.'

CHAPTER VI

SOVIET ECONOMIC POLICY IN SIN KIANG

SIN KIANG or Chinese Turkestan lies remote and aloof on the north-western periphery of the Chinese Empire. Thus situated, many hundreds of miles from the nerve centres of Chinese political and economic activity, it long escaped the civil wars so common in other parts of China.[1] Only the loosest political ties bind it to the Central Government and its trade with China is now of little account. There are no communications to encourage closer economic operations. In fact the nearest Chinese port, Tientsin, is over 2,000 miles away. To reach this outlet to the sea, caravans venturing on the long journey have to pass through some of the most disturbed provinces in China in recent years, while the old trade routes through Outer Mongolia to Sin Kiang are now closed to Chinese traders. Under these circumstances it is quite natural that western Chinese trade should tend more and more in the direction of the U.S.S.R. where these difficulties do not exist, and the trade routes are many and easy. Moreover on both sides of this Russo-Chinese frontier in the Tadjik, Kazak, and Kirghiz Republics as in Chinese Turkestan there are large masses of Muslim peoples, speaking the same Turki language and belonging to the same race, who regard the Chinese as an alien race and if possible prefer to trade with each other.

[1] Since the assassination of the late Governor Yang, the 'Strong Man' of Sin Kiang, in 1928, Turki revolts and Chinese mismanagement of the situation have created bloodshed and turmoil in this formerly peaceful country.

The Soviet Government admitted western China to the special Eastern trading system from the beginning on the grounds that neither Western industrialism nor European capital had any footing in the country. It has been mentioned specifically in almost all the Soviet decrees on Eastern trade and has a special place distinct from China in Soviet foreign trade statistics. Many studies of the economic resources of Sin Kiang and of trade prospects for the U.S.S.R. have been published in Soviet journals and it is clear that this territory has an economic significance for the Soviet Union far exceeding its present state of development.

Russian trade has always successfully competed against Chinese in Sin Kiang. The Czarist Government actively encouraged it by offering a bounty of sixteen gold roubles for every pony load of Russian goods that crossed this frontier, and continued the Central Asiatic railway as far as Osh, on the trade route to Kashgar.[1] The big Russian merchants trading in western China before the Revolution were practically all Mohammedans from Russian Turkestan who understood their co-religionists and their tastes better than the Chinese ever could. Another and far more important advantage, in fact the trump card in this situation, is now held by the Soviet Government: the Turk-Sib railway, completed in 1930. This line runs parallel to the western Chinese frontier over a wide stretch of country and two bifurcations are planned which eventually will bring the railway right to the Sin Kiang frontier. One of these lines is to run from

[1] Cf. 'Politics and Trade in Central Asia', by W. Bosshard, *Journal of the Royal Central Asian Society*. Part IV, 1929.

Alma-Ata to Kuldja and the second from Sergiopol to Bachty-Chuguchak is reported to be almost finished. Urumchi, the capital of Sin Kiang, is 600 km. from Chuguchak, a relatively short distance compared with the 2,668 km. which separate it from Pao-Teo, the railhead on the Kalgan railway. It is now possible to use motor transport (when lorries are available in that part of the world) on the road from Urumchi to Chuguchak. When it is remembered that the Turk-Sib line extends thousands of miles westwards through central Asia where it eventually joins the trans-Caspian railway with connexions running into the heart of Russia, while to the east at Semipalatinsk it joins the trans-Siberian railway crossing Siberia to Vladivostock, some idea of the resources of the Soviet Union thus brought to the back door of western China can be imagined. In the present political and economic state of China there can be no doubt that this railway will be the predominating force in the future economic development of western China. If it had been possible to carry out Dr. Sun Yat-sen's scheme for connecting western China with a Pacific port by rail, China might have had a fifty-fifty chance of dominating this province economically. She is now absolutely unequal to the struggle, and the cost of such a railway is not to be considered within the bounds of possibility for many years to come. Since the completion of the Turk-Sib railway China has been watching Soviet economic expansion in Sin Kiang with apprehension, lest her experience of the Soviets in Mongolia should be repeated there. Up to the present the Soviet Government has not directly interfered in the internal affairs of Sin Kiang

and seems satisfied with consolidating its economic position in a market of about four million people, which is potentially much greater than that of Mongolia, with only 600,000 inhabitants.

Before the War Russia exported chiefly textiles, sugar, oil products, silicates, and metals (manufactured and unworked) to Sin Kiang.

Chief Russian exports to Sin Kiang[1] *in 1913*

	Tons
Manufactured goods (mainly textiles)	2,532
Sugar	750
Oil products	300
Metals and manufactured metals	1,200
Silicates	180

According to the Treaty of St. Petersburg in 1881, Russian trade enjoyed special privileges in western China as in Mongolia, Russian merchants were exempt from all taxes and a system of virtual free trade existed between these Chinese provinces and Russia.

This Treaty was cancelled by the Sin Kiang Government in 1922. Trade with Russia, which had fallen heavily during the War, lapsed almost entirely until in 1925 a new Commercial Agreement with Soviet Russia was signed by the Governor of the Province, Yang Tseng-hsin. In virtue of this Agreement Soviet trading agents were allowed to operate in Sin Kiang and five Commercial Consulates were established, at Kashgar, Urumchi, Kuldja, Chuguchak, and Sara-Soumbe. Under the strong rule of Yang, the Chinese officials kept a sharp eye on the activities of these Soviet trading agents and tried to prevent them establishing friendly relations with the

[1] Cf. *Novy Vostok*,* Nos. 26–7, 1929.

native Turki population or moving too freely about the country. After 1925 Soviet trade grew rapidly in Sin Kiang and was not interrupted even in 1929, when Russian consuls were recalled from China Proper (though not from Sin Kiang) and diplomatic relations were severed between the two countries.

The quantities and variety of industrial goods exported from the Soviet Union to Sin Kiang are steadily increasing and in particular textiles, sugar, and oil are exported in much larger quantities than in the pre-War period. Among other exports are electrical goods, hardware, matches, perfumery, crockery and glass, 'kustar'-made goods, unworked metals (particularly iron bars, which the local blacksmiths manipulate), glycerine, potash and soda, confectionery, macaroni, beer, chemical and pharmaceutical products, caviar—in fact most things manufactured in the U.S.S.R. are represented on the list of exports to Sin Kiang.

Chief Russian exports to Sin Kiang in 1932[1]

Commodity	*Tons*	*Roubles (thousands)*
Textiles	2,358	11,236
Sugar	1,766	978
Oil products	743	142
Matches	239	96
Crockery and glass	294	319
Electric equipment	974	850

There is no such variety in the imports from western China to the U.S.S.R. as colours the list of exports from the Soviet Union. Western China is

[1] Cf. *Foreign Trade*, Dec. 1932.

a primitive agricultural country, producing a few raw materials like silk, wool, and cotton and reported to have considerable mineral wealth including large petroleum deposits. Modern equipment for handling either her mineral or agricultural resources is completely lacking. The only factories in the country are the Soviet cotton and wool cleaning establishments in Kashgar. The export trade with the U.S.S.R. is concentrated in wool, raw silk, carpets and rugs, cotton, hides, skins, horses, and live stock. Both the import and export trade with the Soviet Union is growing in extent and value. Formerly the famous silk of Khotan was sent almost entirely to India. Now the Soviet trading organs take most of the production and have also started buying large quantities of poorly made rugs, which are re-dyed for export purposes in Russia. Since 1930 Soviet exports have been larger than the imports from Sin Kiang, though for several years after the Soviets began trading there in 1925, the balance of trade was unfavourable to them.

Soviet trade with Sin Kiang 1924–32[1]

Imports		*Exports*	
	In thousands of roubles		
1923/24	3,015	1923/24	418
1924/25	4,535	1924/25	2,611
1925/26	10,331	1925/26	6,092
1926/27	11,754	1926/27	10,232
1927/28	13,528	1927/28	10,647
1931	10,212	1931	13,954
1932	12,305	1932	15,698

Monetary statistics are apt to give an entirely mis-

[1] Cf. *The Economic Development of Sin Kiang*,* op. cit., p. 121; *Foreign Trade*,* Dec. 1932.

leading impression of Soviet trade with a country like Sin Kiang unless the peculiar machinery of the Soviet trading organs is clearly understood. The Turki peasants and traders who dispose of their raw materials to the Soviet trading agents have to accept the prices fixed by them (in the absence of other buyers) and also their rates of exchange at the frontier. When prices have thus been arranged, only a small percentage of the price of the goods is payable to the Turkis in currency, i.e. roubles or sometimes Chinese paper money. The rest has to be taken in the form of a credit for Soviet goods, which may not arrive for two or three months and at all events are not necessarily what the Turkis want to order but more or less whatever goods the Soviet agents force them to accept. Moreover, having parted with his products, the Turki merchant has nothing in their place and is wholly at the mercy of the Soviet agent. The prices of these Soviet goods are always fluctuating, and it is quite customary for one merchant to receive goods at a price higher than a rival who comes to the same Soviet trading station a few days later. Thus the Turki merchant with several loads of goods to sell may suddenly find that the Soviet trade organs have placed the same goods in the bazaar much below the price at which he has bought them or can afford to sell them.

As a result of this expanding trade over the Russo-Chinese frontier, Sin Kiang ranked third among the Eastern countries trading with the Soviet Union in 1932. The geographical situation, the prolonged civil disturbances disrupting China, the traditional apathy of the Chinese Government authorities towards social or economic progress in the provinces,

and the chronic lack of funds for constructive purposes are all so many forces reacting in favour of the energetic progressive power on the other side of the frontier. In the adjacent Soviet Republics traditional uneconomic methods of production are being relentlessly supplanted by modern machinery. The Soviet Government is making a colossal effort to change not only the economic methods of many backward peoples but also the very face of their country. Though in many cases these plans are based on tragic misconceptions of real conditions, in the abstract they are spectacular and impressive. Cotton, for example, is being grown in former sun-parched deserts of Russian Turkestan, now irrigated by means of power-driven tractors and often sown by aeroplane. (It is also being grown by force, in the old wheat districts of Turkestan. The result is that the inhabitants of Turkestan, who were supposed to rely on Siberian grain, under the new planned conditions are now starving, as the Siberian grain is not reaching them.) Textile factories are springing up in the wake of these cotton plantations. Up-to-date drying rooms and canning machinery have been installed in Turkestan to prepare its wealth of fruit for far-away markets. The principles of scientific sericulture are being taught in villages where silk-worm rearing has for centuries been a haphazard family occupation. Valuable information about the natural resources of inaccessible parts of Central Asia is gradually accumulating in Moscow as a result of the zeal of Soviet geological expeditions. Schools are being built, superstitious customs uprooted, and ideas of health and hygiene disseminated wherever the Soviet pioneers establish themselves.

These reforms often ride rough-shod over the traditions and beliefs of the people and have aroused fierce opposition—which the Soviet Government has incidentally been at great pains to hide from the outside world. The interesting point in all these economic developments in the Soviet Asiatic Republics as far as Sin Kiang is concerned, is that a spectacular demonstration in modern economic planning is taking place literally under her eyes, while the old methods of production are still in operation on the Chinese side of the frontier. The intelligent young people of the country are apt to believe that the U.S.S.R. 'constitutes the acme of modern civilization . . . a land of unveiled women, railways, motor-cars, cinemas.'[1] The contrast is sharpened for those who have eyes to see by the similar economic resources of both regions.

It is generally assumed in Soviet economic literature that the Soviet Union has an inevitable economic mission in Sin Kiang. This attitude is clearly expressed in the following extract from a special article on the economic development of Sin Kiang published in *Novy Vostok*[2] in 1929: '*The economic progress of Sin Kiang and the solution of the far-reaching problems confronting her, particularly in reorganizing her economic structure, are only possible on condition that closer economic collaboration be established with the U.S.S.R. Even such essential measures as a small reduction in the area under cereals and the substitution of more profitable crops like cotton, or the more intensive breeding of cattle and the development of suitable subsidiary branches of farming such*

[1] Cf. 'Education in Chinese Turkestan', by J. R. O. Wingate. *Journal of the Central Asian Society*, Part III, 1929.

[2] Cf. *Novy Vostok*,* Nos. 26–7, 1929.

as silk culture and market gardening can only be introduced with Soviet assistance. Furthermore, neither in India nor elsewhere in the East can the products of this province be disposed of so advantageously as in the Soviet market'. This is probably substantially true, but it is extremely unlikely that the easy-going Turkis would welcome any fundamental changes in their traditional agricultural life unless forced to do so.

The Soviets are quite right in maintaining that neither Indian nor British goods from India can ever seriously challenge their commercial position in Chinese Turkestan. The Government of India has always deliberately encouraged this Chinese trade, but it must remain a limited business for geographical reasons. Trade between Chinese Turkestan and India has of course been carried on for centuries over the Karakorum Passes, though many of them are over seventeen thousand feet high, and are only open for a few months every year. Nevertheless it is obviously impossible for any bulk import or export trade to take this route, and only articles like precious stones, silk, rugs, or drugs, extremely valuable in relation to their size, are worth the trouble and expense of transport.

The situation in Sin Kiang at the present time is very obscure. According to the scraps of news which filter through to Europe the country is on the verge of serious trouble. The Turki revolts are spreading and owing to the incompetency and obstinacy of the Chinese Governor things seem to be growing steadily worse. In view of the extreme vulnerability of the country at the best of times to Russian intervention, the report at this juncture of a new Commercial Agreement signed between the

Soviet Government and the Governor of Sin Kiang, in October 1932, and most favourable to the U.S.S.R., is, to say the least of it, curious. Officially both parties still maintain silence about the existence of this Agreement, the chief provisions of which are asserted to be that:

(1) The Soviet Government may open several additional trading agencies in Sin Kiang;

(2) Parties of Soviet experts are to investigate the mineral and oil resources of the country;

(3) The Soviet Government promises to co-operate with Sin Kiang in exploiting and developing its natural wealth;

(4) Certain trade routes between Sin Kiang and the U.S.S.R. formerly closed by the Chinese Government to Sino-Soviet trade (for obvious military and political reasons) are to be reopened.

There does not seem to be any *quid pro quo* in these arrangements for China unless the local rumour be correct that some 30,000 Mexican dollars have been placed to the account of the Governor of Sin Kiang in a Treaty Port Bank by the Soviet Government, to enable him to procure munitions and so defend his position during the present disturbances. Whatever may be the truth about this compensating clause, there is no doubt that the Agreement itself exists. If enforced, it would seem to place the key to the economic domination of Sin Kiang in the hands of the Soviet Government, which is thus free to proceed with many long cherished plans. There can be little doubt now that Sin Kiang is destined to be drawn more and more into the orbit of the Soviet economic system.

CHAPTER VII

RESULTS OF SOVIET ECONOMIC POLICY IN THE EAST

THE Soviet trading organizations have on the whole been successful in that smaller sector of the East where they have concentrated during the first ten years of their activity.

Though this Eastern trade is still a small percentage in the sum total of Russian exports and imports and a relatively insignificant amount in the foreign trade balance, it has both relatively and absolutely increased since 1913. Moreover, it is expanding steadily annually while the other branches of Soviet foreign trade fluctuate from year to year.

The tables[1] on the next page show the position of pre-War trade over the Asiatic frontier and the changes which have since taken place both in the general volume of trade and in the imports and exports.

It should be noted that trade across the Asiatic frontier exceeded the pre-War level in 1927–8, although the total foreign trade of the Soviet Union was still below the 1913 level in 1931. The fall in the percentage of the total foreign trade of the U.S.S.R. occupied by Eastern trade after 1929 is due to the abnormally high industrial imports from the West, resulting from the requirements of the Five-Year Plan. The drop in the value of this Eastern trade after 1930 has a twofold explanation. On the one

[1] Statistics for 1913, 1927–8, 1928–9 from *Soviet Union Year-book*, 1930, p. 289; ditto for 1930, 1931 from *Foreign Trade*,* Dec. 1931, pp. 6, 8.

	1913	1927–8	1928–9	1930	1931
	In millions of roubles				
Total foreign trade .	2,894	1,723	1,713	2,095	1,916·2
Across Asiatic frontier .	252·6	262·7	277·1	306·1	269·9
Percentage of foreign trade of Russia .	8%	15%	16%	14%	14%

	1913	1927–8	1928–9	1930	1931
	In millions of roubles				
Total exports . .	1,520·1	770·5	877·6	1,036	811·2
Exports across Asiatic frontier . . .	99·1	138·1	141·0	117·5	191·4
% of exports across Asiatic frontier to total exports . .	6%	17%	16%	11%	17%

	1913	1927–8	1928–9	1930	1931
	In millions of roubles				
Total imports . .	1,374·0	945·5	836·8	1,058	1,105
Imports across Asiatic frontier . . .	153·5	125·4	135·8	130	129
% of imports across Asiatic frontier to total imports . .	11·2%	22%	20%	12%	11%

hand severe import restrictions were enforced both in Persia and Turkey in the course of 1930–31 which considerably reduced Soviet exports to these countries; on the other, the world slump in the prices of raw materials such as cotton, wool, and hides affected the value (but not the volume) of Soviet imports from the East. Nevertheless Russian exports more than doubled in Mongolia and rose considerably in Afghanistan, western China, and Tana Tuva in 1930–31.

On the whole it may be said that the import trade between Russia and the East has not varied very much in value or volume since pre-War days. It is rather the export trade that has expanded since 1913 and it now absorbs a much larger proportion of Russia's foreign trade than formerly or 14 per cent. compared with 6 per cent. (1913.)

The position which has been discussed in detail in the preceding chapters is briefly summarized in this table.[1]

SOVIET FOREIGN TRADE

	EXPORTS		*IMPORTS*		
	1931	*1932*	*1931*	*1932*	
	Jan.–Nov.		*Jan.–Nov.*		
	Roubles				
1. Mongolia	36,104,000	38,846,000	23,330,000	14,981,000	Increase in exports. Imports have fallen.
2. Persia	29,164,000	23,320,000	40,957,000	48,710,000	Exports have fallen. Imports increased.
3. W. China	11,828,000	13,470,000	8,894,000	8,960,000	Increase in imports & exports.
4. Afghanistan	10,278,000	13,402,000	10,295,000	10,310,000	Increase in imports & exports.
5. Turkey	11,254,000	5,163,000	6,562,000	4,878,000	Imports & exports have fallen.
6. Tana Tuva	2,652,000	4,374,000	895,000	2,191,000	Increase in imports & exports.

Many new commodities, e.g. cement, pharmaceutical chemicals, perfumery, macaroni, soap, rubber goods of all kinds, metallurgical products, and electric equipment have been successfully introduced on various Eastern markets. Certain raw materials used in making these articles are now produced in the Soviet Union, as a result of successful experiments

[1] Cf. *Foreign Trade*,* Nov. 1932.

in the Soviet industrial research stations, though they were scarcely known in pre-War Russia. The intensive culture of medicinal plants for the pharmaceutical chemical industry, producing mainly for the East and the home market, is a good example of this kind. Under the auspices of the 'Caoutchoukoness Trust' a rubber industry has been started in the Soviet Union[1] and an attempt is even being made to produce rubber from a plant found wild in Turkestan. Again in this case it is the East which is absorbing the manufactured goods exported.

The Soviet Government's efforts to capture the Eastern market for Soviet textiles have been to a large extent successful. The pre-War export figures for textiles were surpassed in 1928 when they constituted 40 per cent. of the total exports to the East.[2] These exports, especially to Mongolia and Sin Kiang, are annually increasing. Incidentally the British post-War shipments of cotton cloth to the East have followed another course. Since 1925 they have been falling steadily and in 1931 were the lowest registered since 1863.[3] The losses were chiefly on Asiatic markets, in China, India, Persia, and Turkey. In the case of India and China, Japan is the successful competitor, but in Persia the Soviets have secured the best part of the former British trade and their exports to Turkey are increasing. For example, Great Britain exported 40,616,000 sq. yds. to Persia in 1913, but only 7,754,000 sq. yds. in 1931.

The limited needs of primitive peoples in Afghani-

[1] Cf. *La Vie écon. des Soviets*, No. 121, 1930.
[2] Ibid.
[3] Cf. *U.S. Commerce Reports*, March 1932, p. 555.

stan, Mongolia, western China, Tana Tuva, are being gradually and skilfully enlarged by enterprising Soviet commercial agents. In more advanced countries like Turkey and Persia, no opportunity is lost of securing a market for new products of Russian heavy industry, e.g. tractors, combines, machinery of all kinds. The gift of ten tractors made to the Turkish Foreign Minister by the Soviet Government, on the occasion of the Soviet loan to Turkey (May 1932), was nothing more than a free sample to induce future orders.[1] The Soviet Government secured 53 per cent. of the Persian import quota for machinery and electrical equipment in 1931–2, under the Persian foreign trade monopoly. Though both Turkey and Persia have adopted protective measures against Russian imports threatening native industries both countries will probably remain good customers for many other Russian products in the future. The all-important point here is whether Soviet Russia will be able to improve the quality of her manufactured goods. Qualitatively her industrial output is still far below world standards and admitted to be so by the Soviets themselves. 'When can it be assumed that 1,000,000 tons of Soviet steel will prove as durable and as serviceable in rails or in construction as 1,000,000 tons of American or German or British steel?' asked a very impartial student of Russia's economic progress in 1932.[2] 'If there has been an overfulfilment as regards industrial output, the problem of quality still remains unsolved.'[3]

[1] Cf. *Sowjetwirtschaft und Aussenhandel*, May 1932, p. 5.

[2] Cf. W. H. Chamberlin, *The Soviet Planned Economic Order*, World Peace Foundation, Boston, p. 146.

[3] Ibid., p. 160.

Some of the most ambitious schemes set down for execution under the second Five-Year Plan have a special bearing on the expansion of Eastern trade. The centre of the iron and steel industries of Russia was formerly in European Russia, i.e. the Urals and the Donetz basin, and necessitated long and expensive transport before the products of these industries could be exported to Central Asia, Mongolia, or the Russian Far Eastern possessions. The Soviet Government decided to establish another metallurgical centre in connexion with the Kusnetz coalfields and to develop an important mineral area adjacent to Minusinsk, where iron, copper, zinc, tin, asbestos, and gold may be worked economically. On the basis of these raw materials this entire region is to be industrialized. Special emphasis is also laid in Soviet planning on growing industrial crops such as flax, hemp, beetroot for sugar, and fostering various light industries in Siberia. The large exports of Soviet sugar to Mongolia, Western China, Afghanistan, and Tana Tuva[1] have hitherto come entirely from the Ukraine and the Volga. If these new Siberian plans should be successful, supplies in future may be drawn from a much more convenient base. The Lake Balkash Copper Works[2] is another extensive project to be executed immediately according to the second Five-Year Plan, and which may enormously accelerate the development of adjacent countries like Sin Kiang and Mongolia. The productive capacity of the plant is estimated at

[1] In 1932, Russia exported 3,948 tons of sugar to Mongolia; 2,020 tons to Afghanistan; 978 tons to Sin Kiang. Cf. *Foreign Trade*,* Dec. 1932.

[2] The site of the Lake Balkash Copper Works is in an uninhabited region, 500 km. from the nearest station of the Turk-Sib railway.

300,000 tons, which exceeds the output of even the largest similar American concern, i.e. 135,000 tons. This giant plant in the wilderness assumes a new significance (however hypothetical at the present time) when we find that Soviet economists assume that they are planning a scheme 'which may be called on to play a large part in supplying Chinese electro-technic needs'.

Russia's geographical position and her rich natural resources in Asiatic Russia are unique advantages for her Eastern trade. Furthermore, at a moment when hitherto primitive peoples are showing a new disposition to organize their countries on modern lines and a new interest in industrial equipment, Soviet Russia is engaged in an industrial experiment, which relies on large exports of industrial goods to the East for its future prosperity. This is a happy conjuncture of forces for the Soviet Union.

The Soviet Government is devoting a great deal of energy and ingenuity to the task of producing necessary raw materials in the Soviet Union. If successful, the steady market originally promised to the East for its chief products must gradually vanish into thin air. The increased acreage under cotton in Soviet Asia[1] has already virtually stopped imports of cotton from America.[2] Persia and Egypt may also expect to find their exports of cotton to Russia reduced in time. The Soviet Government recently intimated to Egypt that cotton similar to the Egyptian production

[1] The pre-War area under cotton was 684,400 ha. In 1931 it was 2,163,000 ha. (Cf. *Statistical Year Book of U.S.S.R..,** Moscow, 1932.*)

[2] 96,377 tons of cotton were imported by the U.S.S.R. from America in 1928, 16,789 tons in 1930, and none in 1931 or 1932.

can now be produced in the Soviet Union, thus warning her that her cotton might be dispensed with in the Soviet Union in future, if Egypt does not participate more satisfactorily in Soviet trade.[1] Soviet imports of Egyptian cotton already showed a substantial reduction in 1932 or 1,033 tons compared with 26,988 tons in 1931.

Raw silk, formerly little produced in Russia but imported in bulk from the East, is now annually increasing in production. The manufacture of artificial silk has also made great strides. It is interesting to note in this connexion that silk cocoons, formerly on the free entry list to the U.S.S.R. from Afghanistan, were added to the tariff in 1932,[2] and that silk in transit to Europe through the U.S.S.R. will not now be accepted from Sin Kiang.

In the Far Eastern Province and the Caucasus large areas have been planted with rice, one of the chief Russian imports for centuries from Persia. These imports fell from 46,610 tons in 1930 to 35,115 tons in 1931 but rose again to 65,574 tons in 1932. They will probably fluctuate like this for some time, in accordance with the uncertain results of Soviet agricultural production during the early collectivization stages. Before the War practically no tea was grown in Russia and it was heavily imported from China. The imports of Indian tea were negligible. The Soviet Government has drastically reduced the imports of tea from China which only amounted to

[1] Cf. *Le Temps*, Jan. 23, 1932.

[2] By a decree of *SNK*, May 4, 1932, 'silk cocoons from Afghanistan are taxed 6 roubles per 100 kilos.' Cf. *Laws and Decrees of U.S.S.R.*, May 1932, No. 34, p. 207.

5,968 tons in 1932. Owing to special credit facilities offered by the Indian tea-growers, the imports of Indian tea to the U.S.S.R. are relatively increasing. It is hoped, however, that the new tea plantations in Georgia will eventually be able to supply a large part of the tea consumed in the Soviet Union.

One by one planned economy is endeavouring to provide the Soviet Union with commodities which have hitherto been staple imports from the East. Many years will probably elapse before these far-reaching plans achieve their aim. Meanwhile Soviet Russia is in an intermediate stage in regard to the importation of raw materials. The tendency is to buy from the producing rather than from the re-exporting countries (Great Britain, France, and Germany, in the first place) and in many cases the East stands to gain by this policy until the Soviet home supplies materialize as per plan. At the next stage, however, the possibility of mutually profitable commercial relations between these Eastern countries and the Soviet Union must become an open question.

No country is so well situated as the Soviet Union for supplying the rapidly growing market for oil products in Asia. The deposits recently discovered in Central Asia (Kasakstan and the Pamirs) and Siberia mean that the U.S.S.R. will eventually have at its disposal a chain of oil wells stretching across Asia from Baku to Sakhalin and thus possess unique advantages from the point of view of distribution over competitors in Persia, India, or America. Throughout the East railway construction is hampered by lack of capital but motor lorry and air transport lines

are increasing every year. Interest is also growing very rapidly in power-driven means of production, tractors, &c.,[1] which means an increased demand for oil in Asia, and better business for Soviet oil in particular.

For one reason or another Soviet industrial exports,[2] the majority of which go to the East, are increasing while the agricultural exports,[3] which before the War greatly exceeded the industrial, are decreasing.

The government is endeavouring not only to increase the quantities of goods exported, but to an even greater degree to change over from the exportation of raw materials to the export of manufactured goods. This tendency is seen for example in the timber industry, where sawn timber, veneers, &c., are now being increasingly exported instead of logs as formerly.[4]

This policy is borne out by the following table,[5]

[1] 'In 1927–28, 25·9 thousand tons of oil were used for tractors in Soviet Asia. The estimated consumption in 1932 is 2,400,000 tons.' Cf. *Sovyetskaya Aziya*,* Nos. 5–6, 1931: 'Oil in Central Asia', p. 118. (There are no figures available for real consumption in 1931. V.C.)

'In 1929, 32,000 tons of oil products were consumed in western Siberia. The estimated figure for 1933 is 250,000 tons or 78 per cent. increase.' Ibid. The exports of oil to Mongolia rose from 982 tons in 1927 to 2,016 tons in 1932. (Cf. *Foreign Trade*,* 1928, 1932.)

[2] The chief industrial exports are: wood, sugar, oil products, anthracite and coal, metallurgical goods, textiles, preserves and confectionery. (Cf. *Sowjetwirtschaft und Aussenhandel*, April 1932, No. 8, p. 9.)

[3] The chief agricultural exports are: grain, flax, butter, furs, fish products, ibid., p. 9.

[4] Cf. *Quarterly Review of the U.S.S.R. Chamber of Commerce*, Moscow, Jan.–March 1931, p. 45.

[5] Ibid., p. 28.

showing the pre-War structure of Russian exports and the changes which have since taken place:

STRUCTURE OF RUSSIAN EXPORTS

	Agricultural produce		*Industrial, including all manufactured goods, oil, and timber*		
Year	*Thousand roubles*	*% to total*	*Thousand roubles*	*% to total*	*Grand total*
1913	1,131,684	74·4	388,450	25·6	1,520,134
1924–5	343,614	61·5	215,018	38·5	558,632
1925–6	431,686	63·8	244,934	36·2	676,620
1926–7	474,124	60·8	306,108	39·2	780,232
1928–9	346,315	39·4	531,281	60·6	877,596
1930–31	393,665	39·3	608,605	60·7	1,002,270

A good deal of water has flowed under the bridge since 1923 when 'favourable trade balances' were declared to be unnecessary in Eastern trade. At this period Russian economic forces were paralysed and such an attitude could be adopted with impunity. The dynamic stimulus of the Five-Year Plans has forced Russian productive forces into tremendous new activity.[1] Profits and not sentiment must now be accepted as the basis of trade with the East as much as with the West. This is directly reflected in the general trend of Soviet economic policy and particularly in Soviet demands when negotiating commercial treaties with the East. There is another side to the picture however. During the last five years or so, the

[1] 'The U.S.S.R. now occupies second place in world industrial production, with an increase of 277 per cent. on the pre-War level. While world production fell 75 per cent. in 1928–32, Soviet production in the same period rose 98 per cent.' (Statistics compiled by the *Institut fur Konjunkturforschung*). Cf. *Sowjetwirtschaft und Aussenhandel*, May 1932, No. 6, pp. 5–6.

Soviet trading organs in foreign countries as much in the East as in the West have been working in an abnormal atmosphere corresponding to the terrific pressure of industrialization in Russia. All their energies have been bent on securing the market for Soviet goods, which for this purpose were often sold at any price, regardless of the effect on native producers and retailers. This state of affairs cannot continue indefinitely. It is probable that when Russia's economic development has passed beyond this early feverish period, a more constructive commercial policy will be inaugurated, in the first place with the East. There is an immense field for co-operation awaiting the technical and industrial resources of Russia in the era of industrialization which is now also dawning for large sections of the East, if the U.S.S.R. can rise to the situation. It would be to the advantage of both sides in the long run if Soviet Russia abandoned the petty opportunism and sharp practices which have discredited Soviet trade agents in many parts of the East and in particular in Persia. On a more equitable basis of trade there should still be plenty of scope for both Russia and these countries to expand harmoniously.

The successful development of Russia's Eastern trade for which there are so many propitious factors will ultimately depend on the extent to which economic pressure and revolutionary propaganda give place to a wiser policy of economic co-operation with the East. It must also be closely affected by the capacity of Russian industry to produce better goods for the Eastern markets, which are likely to become more competitive in the future—though they are

the natural Russian markets. Finally, the solution found for the Moslem problem in Turkestan must be taken into consideration. The current reports regarding the rough handling of the Moslems in Soviet Asia are not of a nature to promote Soviet trade among the millions of their co-religionists, who are also potential Soviet customers, in China, Persia, Turkey, and Afghanistan.

Whatever settlement is found for the Sino-Japanese conflict must in its way react indirectly on the economic prospects of the Soviet Union in Asia. If China cannot dominate the Far Eastern scene more effectually than at present, a clash between Soviet economic interests in Outer Mongolia and the Japanese economic penetration in Inner Mongolia seems inevitable sooner or later. On the other hand the recovery of China should involve a day of reckoning with the U.S.S.R. concerning the summary treatment of Chinese commercial interests in Outer Mongolia, and put a damper on Soviet plans for the exploitation of Sin Kiang. Though it is very unlikely that Outer Mongolia for any reason would ever freely associate herself with China again, China mistress in her own house would at least endeavour to curb the monopolistic tendencies of both the Soviets in Outer Mongolia and the Japanese in Manchuria and Inner Mongolia. However desirable it is that Russian economic and political expansion in nominally Chinese territory should cease, no good purpose could be served by weakening Russia's present strength in this triangular situation. The following lines were written in 1928, several years before the present situation in the Far East had crystallized. The impor-

tance attached by the author[1] to the industrialization of Asiatic Russia as a factor for peace in the Far East may in time prove as genuinely prophetic as his other vision of the future which unfortunately has already materialized:[2]

In the East a conflagration may arise, the consequences of which cannot be too grimly painted. Such a conflagration might be checked or even averted by the presence of a really strong Russia. The peace of Asia depends very essentially on the military and economic power of Russia. In the economic and military sense, Russia can only be strong in Asia when, having secured the flank of her Empire in the Far East and Central Asia, she proceeds to develop the heart of her colonial territory, (i.e. the southern part of New-Siberia and the Altai-Kusnetz region, where eighty million people could comfortably live), according to its potential capacity.

[1] Cf. Georg Cleinov, op. cit., p. 426: 'Im Osten kann sich ein Brand entwickeln, dessen mogliche Folgen nicht schwarz genug gemalt werden konnten—ein Brand, den ein starkes Russland einzudammen, vielleicht gar zu verhindern imstande ware . . . Der Friede in Asien hangt sehr wesentlich von dem Verhandensein eines *wirtschaftlich und militarisch starken* Russlands ab. Wirtschaftlich und militarisch stark kann Russland in Asien nur sein, wenn es unter genügender Sicherung der Flankenstellungen im Fernen Osten und in Zentralasien die Kernstellung seines Aufmarschgebiets, d.h., den Sudteil von Neusibirien, das Altai-Kusnetzker Gebiet, auf dem achtzig Millionen Menschen bequem leben konnten, entsprechend entwickelt.'

[2] As the question of Russian economic interests in Manchuria, including the Chinese Eastern Railway, is bound up with the larger issue of Sino-Russian economic relations as a whole, it does not fall within the scope of this volume.

APPENDIX I

PRINCIPLES[1] of Eastern trade adopted by the Second Conference of National Commissariats of Foreign Trade (1923):

'1. Our external commercial policy in the East must be essentially different from that in relation to the capitalistic West, because of the special character of our economic relations in the East and West, and also as a result of those practical problems which confront the U.S.S.R. in the East.

'2. The capitalistic encirclement of the Soviet Union, endeavouring on the one hand to suppress our economic revival, and on the other preparing to revive intervention so as to destroy the workers'-peasants' government, forces an energetic foreign trade monopoly policy upon us, as an instrument of defence against all attempts to overcome the proletarian revolution in the struggle for socialism. *The Eastern countries, according to the conditions prevailing there and the character of their economy not only do not offer such obstacles in regard to the U.S.S.R. but rather promise a united economic front with us against the general intervention of capitalistic imperialism.*

'3. The policy underlying our economic relations with the countries of the East should therefore be directed by considerations of *economic co-operation with them* and of active support in increasing their productive power, as a pledge of our determination to participate in the resuscitation of the East and to draw the peoples of the East struggling for their independence closer to the U.S.S.R. and as a means of fighting and destroying the colonizing propensities of the capitalistic West.

'4. For these ends the Conference deems it essential:

[1] Extract from *Encyclopaedia of Soviet Exports*,* Berlin 1924 (vol. i, p. 29).

'(*a*) To introduce the most favourable conditions possible for direct commercial exchange between the products of the soil and the agricultural economy of the countries of the East and the products and goods of Soviet industry.

'(*b*) To regard as necessary in dealing with the East to decentralize the business of distributing licences, in particular for the export of monopolized goods, leaving the matter to the corresponding boards of the Executive of the N.K.V.T. (National Commissariats of Foreign Trade) of the Federal Republics.

'(*c*) To facilitate conditions for Eastern merchants crossing the Russian frontier and to simplify their transaction of financial and other operations connected with foreign trade.

'(*d*) To take immediate steps to foster the sale of the Eastern countries' products in exchange for the production and industrial goods of the U.S.S.R. as well as of other countries.

'(*e*) Not to insist on a favourable balance of trade in transactions with Eastern countries.

'(*f*) To co-operate as far as possible in the organization of mixed trading bodies by admitting Eastern merchants to membership of these bodies, on more favourable conditions than would be acceptable in the West.

'(*g*) In view of the peculiar forms of credit in the East and as a result of the absence there of any wide network of credit institutions not dependent on Western capital, to regard as essential the formulation of measures for financing foreign trade with Eastern countries, relying on the one hand on our own financial institutions, and on the other on extracting Eastern capital where possible.

'(*h*) To draw the attention of our industrialists to the desirability of establishing *lower prices for our manufactures and goods, destined for Eastern countries.*

'A policy of the greatest economic co-operation should actually result in special forms of trading with the East. In

its general lines the organization of our external trade over Eastern frontiers approximates to a régime of "licensed liberalism", Persian goods not competing with Russian may be imported from Persia without licence; this same procedure is gradually beginning to be applied on the Russo-Mongolian frontier, and in the near future there is reason to believe that it will also be applied on the Russo-Turkish frontier.'

APPENDIX II

Liste des Marchandises soviétiques à importer au cours de l'année économique 1310–1311 conformément à l'article dix de la convention d'établissement, de commerce et de navigation signée le 27 Octobre, 1931.[1]

MARCHANDISES	*ÉCONOMIQUE 1310–1311 EN RIALS*	*Sommes en rials*	*Pourcentage de la part de l'U.R.S.S.*
Sucre (en pain et en poudre)	33,000,000	33,000,000	100%
Allumettes	1,000,000	1,000,000	100%
Kérosine	5,875,000	5,875,000	100%
Benzine	6,300,000	6,300,000	100%
Mazout	450,000	450,000	100%
Nefte	225,000	225,000	100%
Goudron et autre residus	500,000	500,000	100%
Grease, mobil oil, et autres huiles minérales raffinées, ou non	2,000,000	1,000,000	50%
Tissus de coton	44,500,000	24,447,000	55%
Métaux ouvrés	4,370,000	2,840,000	65%
Galoches	600,000	552,000	92%
Ouvrages en caoutchouc (y compris bandages, pneus et résine)	3,500,000	805,000	23%
Porcelaine, faience et verrerie	1,526,000	1,159,760	76%
Ciment et ouvrages en ciment	830,000	600,090	72%
Graines de vers à soie	750,000	300,000	40%
Produits chimiques	500,000	250,000	50%
Teintures et couleurs	1,550,000	198,000	12%
Droguerie à l'exception de l'huile de ricin, d'amande, de pavot et de graine de coton	2,000,000	400,000	20%

[1] I am indebted to Mr. Hakimi of the League of Nations Secretariat for procuring me a copy of the French text of this Treaty. V.C.

MARCHANDISES	*ÉCONOMIQUE 1310–1311 EN RIALS*[1]	*Sommes en rials*	*Pourcentage de la part de l'U.R.S.S.*
Papiers, cartons, papiers pour revêtement des murs et autres ouvrages en papier . . .	1,660,000	1,120,380	66%
Machines, moteurs, pièces de rechange, instruments techniques, outillages électriques et lampes électriques (exception faite pour les objets regardés comme mobiliers)	5,800,000	3,108,800	53%
Fil à coudre . . .	760,000	425,600	56%
Toiles cirées . . .	160,000	48,000	30%
Cordes et ficelles, etc. .	260,000	150,800	58%
Eaux minérales et vins médicinaux . .	66,000	36,960	56%
Alcool pur . . .	16,000	9,600	60%
Savons parfumés . .	80,000	40,000	50%
Bougies . . .	80,000	16,000	20%
Fourniture de bureau et sonnettes . . .	330,000	66,000	20%
Instruments de musique .	100,000	55,000	55%
Montres et mouvements séparés ou pièces détachées . . .	330,000	9,900	3%
Appareils cinématographiques, photographiques et accessoires	260,000	39,000	15%
Cuirs ouvrés et ouvrages en cuir . . .	1,600,000	320,000	20%
Végétaux et plantes végétales à l'exception des graines de chanvre, ricin et sésame . . .	50,000	32,500	65%
Signé: YASSAI-		*Signé*: TCHETSOFF-	

[1] 20 rials equal 1 Pahlavi (gold) or £1 sterling.

APPENDIX III

Accord[1] *entre le Gouvernement de l'Afghanistan et celui de l'Union des Républiques soviétistes socialistes, du 28 novembre 1927*

'Article premier. Les gouvernements de l'Union des Républiques soviétistes socialistes et de l'Afghanistan mettront chacun deux de leurs avions à la disposition de la ligne aérienne Kaboul-Tachkent ainsi que le personnel aviateur suffisant pour le service en question. Le départ des avions de Tachkent pour Kaboul et de Kaboul pour Tachkent se fera deux fois par mois d'après le tableau de départ et en dehors de ce tableau en cas de besoin.

'Article 2. Le Gouvernement afghan s'engage à créer et à maintenir en bon état dans l'intérieur de son territoire les champs d'aviation et d'atterrissage, ainsi que tous autres appareils ou matériels indispensables à la ligne aérienne.

'Article 3. Le Gouvernement de l'Union des Républiques soviétistes socialistes s'engage à créer et à maintenir en bon état dans l'intérieur de son territoire les champs d'aviation et d'atterrissage ainsi que tous autres appareils ou matériels indispensables à la ligne aérienne.

'Article 4. Le Gouvernement de l'Union des Républiques soviétistes socialistes s'engage à procurer au commandement de l'aviation afghane, aux prix de l'Union des Républiques soviétistes socialistes la quantité de naphte et de matières combustibles ou lubrifiantes indispensables pour l'entretien de la ligne aérienne Kaboul-Tachkent.

'Article 5. Le traitement du personnel de l'Union des Républiques soviétistes socialistes employé à la ligne

[1] Extract from *L'Étude documentaire sur l'Internationalisation de l'Aeronautique civile*, Société des Nations, 15 Avril 1932. (Chief clauses of the Convention.)

aérienne incombe au Gouvernement de l'Union des Républiques soviétistes socialistes et le traitement du personnel afghan reste à la charge de l'Afghanistan. Les deux Gouvernements d'Afghanistan et de l'Union des Républiques soviétistes socialistes se communiqueront d'avance les noms des mécaniciens et pilotes qui seront employés à la ligne aérienne.

'Article 7. Les comptes et les paiements réciproques de chaque année, en ce qui concerne les matières carburantes ou lubrifiantes ou tout autre produit de réserve, &c., que les avions de chaque Partie ont reçu ou consommé sur le territoire de l'autre, seront liquidés en janvier de l'année suivante entre la représentation plénipotentiaire de l'Union des Républiques soviétistes socialistes à Kaboul, et le Ministère des Affaires étrangères du Royaume d'Afghanistan.

BIBLIOGRAPHICAL NOTE

THERE is always a certain difficulty in obtaining accurate and timely information about economic conditions in Soviet Russia. The situation is now further complicated by the fact that the Soviet statistical administration is in a state of chaos, as a result of 'purging' and re-organization plans.[1] Essential statistical publications like *Vneshnyaya Torgovla* (*Foreign Trade*), the statistical survey of foreign trade published monthly by the Foreign Trade Commissariat, sometimes appear months after the fixed date of publication. Figures usually available are in abeyance or are so variously presented for their own ends by different official bodies that they can only be accepted approximately. The 'controlled figures' are wrapped in mystery since 1931 and only circulate among government departments. Meanwhile, nobody knows exactly what statistical methods are to be followed in future.

For various reasons (including economy) it has been decided to suspend publication of a number of useful periodicals, such as *Foreign Markets**; *The Statistical Annual**; *La Vie économique des Soviets* (the official organ of the Soviet Trade Delegation in Paris); *The Messenger of Finance** (published by the National Commissariat of Finance).

The chief official Russian sources of information used in this work are *The Collected Laws and Decrees of the U.S.S.R.*,* the monthly statistical survey *Foreign Trade*,* and the *Messenger of Finance**. All the laws and decrees affecting Eastern trade, the official texts of commercial treaties between the Soviet Union and its Eastern neighbours, the tariffs and periodical changes therein, can be

[1] There were frequent references to the 'statistical crisis' in *Izvestiya* during January and February 1932.

found in these Collected Laws, which are thus an essential guide to Soviet economic policy.

A good deal of simple arithmetic is often needed in order to obtain the particular statistics required in a study of Eastern trade. For example, in former years both the *Soviet Union Year Book* and *Foreign Trade** published separate figures for the total foreign trade as well as for the imports and exports of the Soviet Union over the Asiatic frontier. This convenient practice has been discontinued since 1929 and so the statistics for this Asiatic trade have to be compiled in each case if needed. In the case of countries like Afghanistan[1] and Turkey, part of whose trade passes over the European and part over the Asiatic frontier of the Soviet Union, the percentages given in Soviet statistics are in terms of either the total European or Asiatic trade, but not in terms of the total foreign trade of the country. For certain years they are available in the League of Nations Memorandum on Balance of Payments and otherwise must be calculated.

Soviet statistics for trade with Turkey and Persia have been compared with and checked by the official *Statistique annuelle du Commerce extérieur de la Turquie* and the *Statistique commerciale de la Perse*. It was not possible to do the same thing in the case of Mongolia and Afghanistan where statistics can scarcely be said to exist, and at all events are not available abroad. The statistics for British-Afghan trade which would form a useful basis of comparison with Soviet-Afghan trade have not been published since 1925.[2]

The Soviet encyclopaedias of imports and exports, respectively, contain many useful articles on the general

[1] Sea-borne Russian exports to Afghanistan (a small percentage of the total export trade) which mostly pass through India, are reckoned as part of the European trade.

[2] Cf. *Statistical Abstract for British India*, Calcutta, March 1932, for confirmation of this fact.

principles of Soviet trade as well as special studies of Soviet economic relations with different countries. The idea of such an encyclopaedia, entirely devoted to import and export trade, is, as far as I know, unique and has resulted in an excellent, scientifically compiled reference work. A second edition of the volumes on Soviet export trade appeared in 1928.

This framework of official statistics, legislation, and documents is supplemented in the case of Turkey and Persia by the Trade Reports of the foreign Consular officers in Istambul and Teheran; the periodical articles on various aspects of their economic life published in the U.S. Department of Commerce Reports, *Wirtschaftsdienst*, &c.; the notes from well-informed correspondents in both countries given in *Oriente moderno*, the monthly journal of the *Istituto per l'Oriente* in Rome; the French and Italian newspapers published in Istambul and Teheran (e.g. *Il Messaggero degli Italiani*, *Le Messager de Téhéran*, *Iran de Téhéran*), as well as by the full survey of the Turkish press made available by the Quai d'Orsay in *Le Bulletin périodique de la Presse turque* and the reports of the foreign Chambers of Commerce interested in trade with these countries, e.g., *Bulletin de la Chambre de Commerce Franco-Asiatique*, *Bulletin de la Chambre de Commerce Franco-Persane*.

In Afghanistan and Mongolia the position with regard to official and unofficial material is much less satisfactory than in either Turkey or Persia. There is no means of checking Soviet statistics for foreign trade with either country as official statistics scarcely exist and in Afghanistan all information of this kind is jealously guarded from foreigners.[1] There is little reliable scientifically written literature on Afghanistan and facts have to be carefully sifted from pages of highly coloured journalese. The best reports on economic questions are to be found in

[1] Cf. Bruno Seifert, *Afghanistan*, Schriften des Deutschen Ausland-Instituts, 1929, p. 57.

German economic journals like *Wirtschaftsdienst*, *Die weltwirtschaftliches Archiv*, or the *Deutsche Wirtschafts-Zeitung* from their special Kabul correspondents. There are no regular consular reports on trade conditions in either Afghanistan or Mongolia. *Oriente moderno* includes Afghanistan in its sphere of interest but has no correspondent in Mongolia. A certain amount of criticism of Soviet economic and political penetration in Mongolia may be found in the English periodical literature published in China, e.g., *China Weekly Review*, *The Far Eastern Review*; occasionally an article on Mongolia appears in the *Chinese Economic Bulletin*, but little positive information regarding economic conditions in Mongolia is to be found in any of these sources. I have drawn largely on Georg Cleinov's *Neu-Sibirien*, a masterly work, containing an excellent study of Mongolia in its relation to the Soviet Union and Siberia based on first-hand investigation.

As there are no foreign correspondents, consular reports, or other regular sources of current information (except Soviet Statistics) on Sin Kiang, the *Journal of the Royal Central Asian Society* is an invaluable means of keeping in touch with what is happening there. The small group of experts, political agents, explorers, and scientists of one kind or another who have first hand knowledge of the country, practically all contribute to this journal from time to time. Moreover as there are no casual travellers in this inaccessible province of China, it often happens that light is thrown on obscure economic problems by works which at first sight might seem to have no direct economic interest. Specialists like Sir Aurel Stein, Colonel Etherton, Dr. Bosshard, or Mr. Owen Lattimore are alive to the whole fabric of life in the area of their particular studies, so that a great deal of detailed information regarding even local economic conditions and trade in Sin Kiang, may be found in their works.

Little of the extensive and interesting literature on Sin Kiang or Mongolia, published in Russian since the Revolution, has yet found its way out of Russia. The importance of Mongolia as an actual and potential market for Russian and Siberian products and its interest as a source of raw materials for the Soviet Union, is reflected in the detailed studies of trade and communications, purchasing power of the population, mineral resources, progress of socialistic construction, &c., in Mongolia, published in the Bulletins of the Siberian co-operative societies, the reports of the Irkutsk and Siberian Planning Commissions, the local Siberian and Central Asiatic press, and the publications of the Chamber of Commerce of the East in Moscow.[1] Special articles on Mongolia and Sin Kiang also abound in Soviet periodicals like *Novy Vostok* and *Sovyetskaya Aziya*, which concentrate on Eastern problems. In these journals there is a great deal of local statistical data which does not appear in the statistics published by the Soviet Union Commissariats. Unfortunately I have only been able to tap these local Russian sources of information very slightly, through the courtesy of friends in Moscow. My work would undoubtedly have gained in fullness and colour if I could have investigated these documents more thoroughly, though I do not feel that any essential information is lacking owing to the impossibility of doing so.

Pre-War Sources

In general pre-War sources of information have only been consulted in so far as it was necessary (*a*) to supply a background of pre-War Russian economic policy in the East for this study of Soviet policy; (*b*) to obtain statistics

[1] The Chamber of Commerce of the East was amalgamated with the Chamber of Commerce of the West in 1931.

of pre-War Russian trade with the East; (*c*) to find the texts of pre-War treaties and agreements concluded by Russia with her Eastern neighbours.

(*a*) The *Collection of Laws of the Russian Empire** (1912) is the best guide to the pre-War Russian statutes, tariffs, and customs regulations affecting Eastern trade. The documents from the Russian archives[1] recently published by the Soviet Government contain a mass of correspondence between the Russian Ministry of Foreign Affairs and the Russian diplomatic representatives in Persia, Turkey, and Mongolia, and are indispensable for understanding pre-War official Russian economic aims and methods in these countries. The old Russian Encyclopaedia[2] is a mine of well-compiled information regarding pre-War Russia and the organization of her economic life and foreign trade.

(*b*) Statistics for pre-War Russian foreign trade have been taken from the *Messenger of Finance and Industry* published weekly by the Ministry of Finance, Trade, and Industry; Soviet statistics for pre-War Russian foreign trade have been compared and checked in each case by this means.

All foreign trade statistics up to 1923–4 are given in pre-War roubles, afterwards in chervonetz roubles. Comparative estimates of pre- and post-War foreign trade can therefore only be offered as relatively accurate and subject to a large margin of speculation concerning the real value of the chervonetz rouble on the international exchange.

[1] *Die internationalen Beziehungen im Zeitalter des Imperialismus.* Documents from the Czarist archives, vols. i and iv, Verlag von Reimar Hobbing, Berlin, 1932.

[2] *Encyclopaedic Dictionary,** St. Petersburg, 1890–1904.

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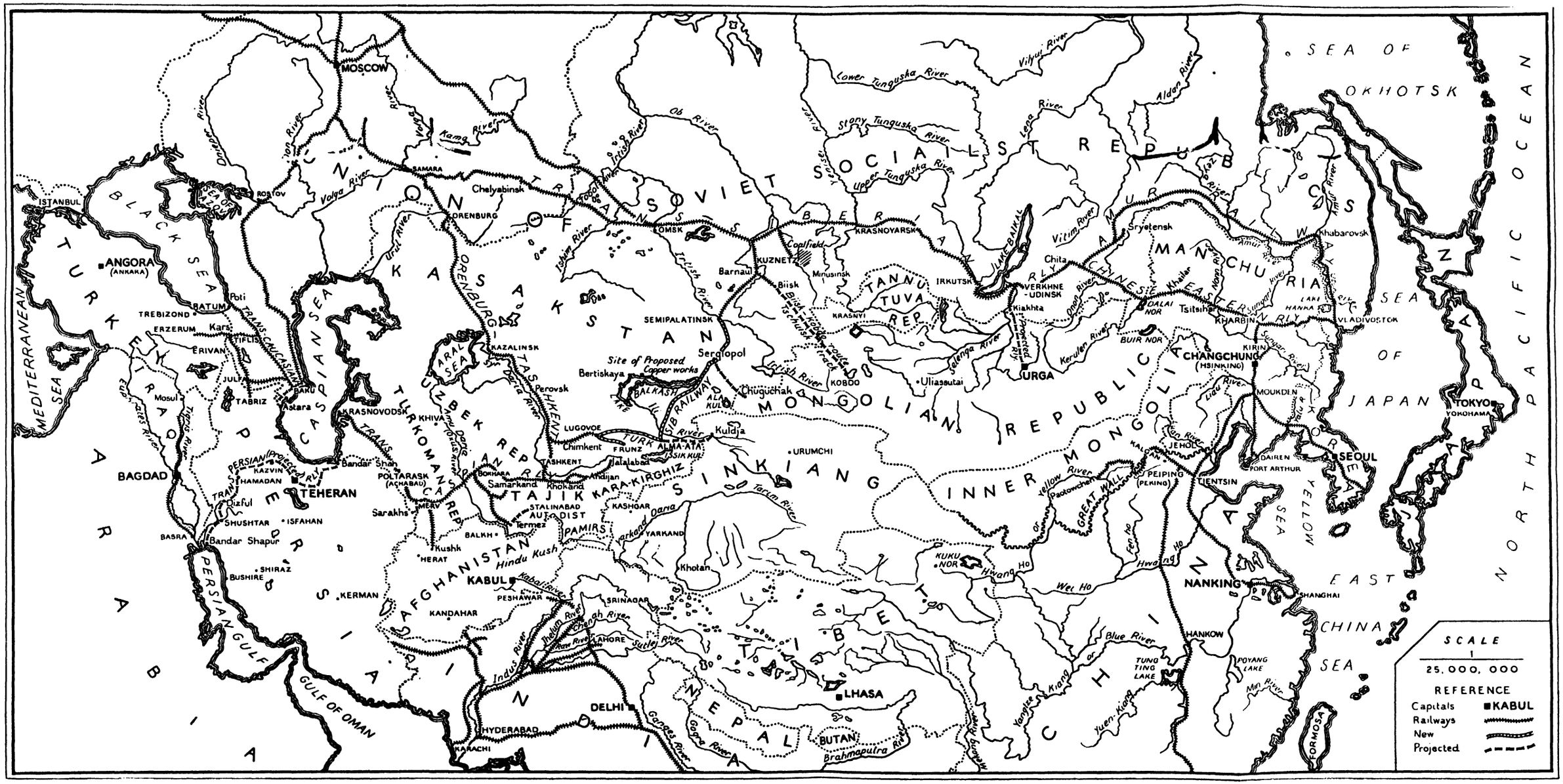

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